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YIHAI INTERNATIONAL HOLDING LTD.

颐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 2016

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 2016 (the “**Reporting Period**”), together with comparative figures for the same period of 2015.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB1,088.0 million in 2016, a 28.4% increase from RMB847.3 million in 2015.
- Gross profit was RMB416.9 million in 2016, a 41.7% increase from RMB294.2 million in 2015.
- Net profit was RMB186.7 million in 2016, a 49.9% increase from RMB124.5 million in 2015.
- Net profit attributable to owners of the Company was RMB186.7 million in 2016, a 49.9% increase from RMB124.5 million in 2015.
- Earnings per share (basic and diluted) was RMB0.234 in 2016.

CONSOLIDATED STATEMENT OF BALANCE SHEET

	Note	As at 31 December	
		2016	2015
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights		31,738	7,330
Property, plant and equipment		116,141	120,491
Intangible assets		2,803	823
Deferred income tax assets		6,584	5,697
Prepayments for property, plant and equipment		8,608	1,748
Total non-current assets		165,874	136,089
Current assets			
Inventories		130,496	102,754
Trade receivables	4	67,080	63,838
Prepayments and other receivables	5	38,217	51,467
Cash and cash equivalents		1,021,999	235,216
Derivative financial instruments		—	—
Total current assets		1,257,792	453,275
Total assets		1,423,666	589,364
Equity			
Equity attributable to owners of the Company			
Share capital	6	68	31
Reserves	7	1,266,137	141,893
Total equity		1,266,205	141,924
Liabilities			
Non-current liabilities			
Redeemable convertible preferred shares		—	186,667
Current liabilities			
Trade payables	8	71,276	43,324
Other payables and accruals	9	56,748	196,915
Current income tax liabilities		29,437	20,534
Total current liabilities		157,461	260,773
Total liabilities		157,461	447,440
Total equity and liabilities		1,423,666	589,364

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Revenue	3	1,088,014	847,339
Cost of sales	10	(671,072)	(553,106)
Gross profit		416,942	294,233
Distribution expenses	10	(127,921)	(93,898)
Administrative expenses	10	(53,841)	(38,255)
Other incomes and gains- net	11	21,481	3,479
Fair value loss of redeemable convertible preferred shares		(35,264)	—
Finance income- net	12	33,692	1,361
Profit before income tax		255,089	166,920
Income tax expense	13	(68,369)	(42,373)
Profit for the year		186,720	124,547
Profit attributable to:			
– Owners of the Company		186,720	124,547
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges		(514)	514
Other comprehensive income for the year, net of tax		(514)	514
Total comprehensive income		186,206	125,061
Total comprehensive income attributable to:			
– Owners of the Company		186,206	125,061
Earnings per share attributable to ordinary equity holders of the Company			
(expressed in RMB per share)			
– Basic	14	0.234	0.222
– Diluted	14	0.234	0.220

NOTES

1. General information

Yihai International Holding Ltd. (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and sale of hot pot soup flavoring products, hot pot dipping sauce products and Chinese style compound condiment products in the People’s Republic of China (the “PRC”), collectively referred to as the “Listed Business”.

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 P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1 - 1205 Cayman Islands.

As at 31 December 2016, the ultimate holding company of the Company is ZYSP Yihai Ltd. which is wholly owned by Mr. Zhang Yong and Ms. Shu Ping collectively. Ms. Shu Ping is the wife of Mr. Zhang Yong and they are collectively referred to as the “Ultimate Shareholders”.

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”), the Listed Business was principally carried out by Sichuan Haidilao Catering Corporation Ltd. (“Sichuan Haidilao”) and its affiliated companies which are majority owned by the Ultimate Shareholders. In the preparation of the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), the Reorganisation was completed on 31 December 2015 and pursuant to which the companies engaged in the Listed Business under common control of the Ultimate Shareholders were transferred to the Company. Accordingly, the Reorganisation has been accounted for as a reorganisation of business under common control in a manner similar to merger accounting in 2015.

The Company’s global offering of its shares (“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 28 March 2017.

2 Basis of preparation

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 Cap. 622. The consolidated financial statements has been prepared under the historical cost convention, as modified by the revaluation of the redeemable convertible preferred shares which is carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1.

The adoption of these amendments did not have any significant financial impact on the Group's consolidated financial statements.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(i) IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets as the Group has only loans and receivables type financial assets as at 31 December 2016.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities as at 31 December 2016. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Under the new hedge accounting rules in IAS 39, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

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

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date, and a more detailed assessment of the impact will be performed in the next 12 months.

(ii) IFRS 15 ‘Revenue from contracts with customers’

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

- revenue from service - the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and
- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group’s financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

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

(iii) IFRS 16 ‘Leases’

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB 6,026,000. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.

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

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

3. Revenue and segment information

Management determines the operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of hot pot soup flavoring products, hot pot dipping sauce products and Chinese-style compound condiment products to external customers, which are considered as one segment. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of the total revenues. Accordingly, no geographical information is presented.

Breakdown of revenue by product category is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue		
Hot pot soup flavoring products		
– Related parties	583,778	446,743
– Third parties	288,745	251,909
Subtotal	<u>872,523</u>	<u>698,652</u>
Hot pot dipping sauce products		
– Related Parties	104	53
– Third Parties	73,856	41,157
Subtotal	<u>73,960</u>	<u>41,210</u>
Chinese style compound condiment products		
– Related parties	18,194	7,511
– Third parties	116,351	87,720
Subtotal	<u>134,545</u>	<u>95,231</u>
Others		
– Related parties	3,652	10,796
– Third parties	3,334	1,450
Subtotal	<u>6,986</u>	<u>12,246</u>
Total	<u><u>1,088,014</u></u>	<u><u>847,339</u></u>

4. Trade receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Third parties	12,866	5,331
Related parties	54,224	58,507
Subtotal	67,090	63,838
Less: provision for impairment	(10)	—
Trade receivables — net	<u>67,080</u>	<u>63,838</u>

- (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 60 days. The related party customers of the Group are granted with 30 days credit period. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	66,878	63,838
3 to 6 months	202	—
Total	<u>67,080</u>	<u>63,838</u>

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

- (a) As at 31 December 2016, trade receivables of RMB 202,000 (2015: Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
3 to 6 months	<u>202</u>	<u>—</u>

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

	<u>2016</u>	<u>2015</u>
	<u>RMB'000</u>	<u>RMB'000</u>
As at 1 January	—	226
Provision for/(Reversal of) impairment	10	(226)
As at 31 December	<u>10</u>	<u>—</u>

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

5. Prepayments and other receivables

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Prepayments		
Prepayments for purchase of raw materials	24,276	37,993
Prepayments for property, plant and equipment	8,608	1,748
Value added tax recoverable	4,150	3,072
Prepayments for rental	2,032	2,308
Prepayments for legal and professional fees	1,933	3,273
Prepayments for utilities	160	809
Others	348	91
Subtotal	41,507	49,294
Less: Non-current portion	(8,608)	(1,748)
Current portion	32,899	47,546
Other receivables		
Deposit for utilities	3,271	590
Advance to employees	1,595	1,306
Deposit for futures contracts	—	924
Related parties	390	450
Others	323	810
Less: provision for impairment (a)	(261)	(159)
Subtotal	5,318	3,921
Total	<u>38,217</u>	<u>51,467</u>

(a) Movements in the provision for impairment of other receivables are as follows:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
As at 1 January	159	144
Provision for impairment	102	15
	<u>261</u>	<u>159</u>

6. Share capital

Authorised ordinary shares:

	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u> US\$
Ordinary shares of US\$0.01 each upon incorporation and as at 1 January 2015	200,000	2,000
Increase in authorised share capital on 12 March 2015 (a)	214,800	2,148
Increase in authorised share capital on 5 October 2015 (a)	585,200	5,852
	<u>1,000,000</u>	<u>10,000</u>
Balance in October 2015 prior to Share Split (b)	1,000,000,000	10,000
Share Split on 5 October 2015 (b)	1,000,000,000	10,000
	<u>1,000,000,000</u>	<u>10,000</u>
Ordinary shares of US\$0.00001 each at 31 December 2015	4,000,000,000	40,000
Increase in authorised share capital on 20 June 2016 (c)	5,000,000,000	50,000
	<u>5,000,000,000</u>	<u>50,000</u>

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
		US\$	RMB'000
At 1 January 2015	200,000	2,000	12
Issuance of ordinary shares in March and October 2015 (a)	288,000	2,880	19
Balance on 5 October 2015 before the Share Split (b)	488,000	4,880	31
Share Split on 5 October 2015	488,000,000	4,880	31
At 31 December 2015	<u>488,000,000</u>	<u>4,880</u>	<u>31</u>
At 1 January 2016	488,000,000	4,880	31
Conversion of redeemable convertible preferred shares (d)	54,222,222	542	4
Capitalisation issue (e)	237,777,778	2,378	16
Issuance of ordinary shares upon Global Offering (f)	260,000,000	2,600	17
Issuance of ordinary shares upon exercise of over-allotment option (f)	6,900,000	69	—
At 31 December 2016	<u>1,046,900,000</u>	<u>10,469</u>	<u>68</u>

- (a) On 12 March 2015, the authorised capital was increased to US\$ 4,148 divided into 414,800 ordinary shares with a par value of US\$0.01 each. On the same date, 214,800 ordinary shares with par value of US\$ 0.01 each were issued at US\$ 8.86 per share, totaling US\$ 1,903,148 (equivalent to approximately RMB 12,067,000), of which US\$ 2,148 (equivalent to approximately RMB 14,000) were credited to share capital and US\$ 1,901,000 (equivalent to approximately RMB 12,053,000) were credited to share premium.

On 5 October 2015, the authorised capital was increased to US\$ 10,000 divided into 1,000,000 ordinary shares with a par value of US\$ 0.01 each. On the same date, 73,200 ordinary shares with par value of US\$ 0.01 each were issued at US\$ 11.85 per share, totaling US\$ 867,420 (equivalent to approximately RMB 5,601,000), of which US\$ 732 (equivalent to approximately RMB 5,000) were credited to share capital and US\$ 866,688 (equivalent to approximately RMB 5,596,000) were credited to share premium.

- (b) On 5 October 2015, the board of directors of the Company approved a share split of the Company's share capital at a ratio of 1 to 1,000 (the "Share Split"). As a result, the authorised share capital after the Share Split remained at US\$10,000 but was divided into 1,000,000,000 ordinary shares at a par value of US\$0.00001 each and the issued share capital remained at US\$ 4,880, divided into 488,000,000 ordinary shares of US\$ 0.00001 each.

(c) On 20 June 2016, the authorised share capital of the Company was increased from US\$10,000 to US\$50,000 by the creation of 4,000,000,000 ordinary shares with nominal value of US\$ 0.00001 each.

(d) Conversion of redeemable convertible preferred shares

As at 13 July 2016, the redeemable convertible preferred shares have been automatically converted into 54,222,222 ordinary shares (before the capitalisation issue mentioned in note (e) below) upon listing of the Company's shares on the Main Board of HKSE.

(e) Capitalisation issue

Pursuant to a written resolution of all shareholders of the Company (the "Shareholders") passed on 20 June 2016, conditional upon the share premium account of the Company being credited as a result of the issuance of new shares pursuant to the Global Offering, the directors of the Company (the "Director") were authorised to capitalise an amount of US\$2,378 towards paying up in full at par of 237,777,778 ordinary shares of US\$0.00001 each for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the business day before 13 July 2016 in proportion to their then existing shareholding. Accordingly, 237,777,778 ordinary shares with par value of US\$0.00001 each were issued and US\$2,378 (equivalent to RMB 15,907) were credited to share capital.

(f) Issuance of new ordinary shares to public upon Global Offering

On 13 July 2016, the Company completed its Global Offering by issuing 260,000,000 new ordinary shares with nominal value of US\$0.00001 each at a price of HK\$3.3 per share. Since then, the Company's shares have been listed on the Main Board of HKSE.

On 12 August 2016, the Company issued additional 6,900,000 new ordinary shares with nominal value of US\$0.00001 each at a price of HK\$3.3 per share pursuant to the exercise of the over-allotment option of the Global Offering.

The total gross proceeds from the Global Offering were approximately HK\$ 880,770,000 (equivalent to approximately RMB 759,301,000), of which US\$ 2,669 (equivalent to approximately RMB 17,000) was credited to share capital, HK\$ 880,749,000 (equivalent to approximately RMB 759,284,000) was credited to share premium. The share issuance costs relating to the Global Offering amounted to RMB 39,093,000 were recorded in the share premium.

7. Reserves

	Share premium	Treasury shares (note a)	Merger reserve (note b)	Statutory reserve (note c)	Share- based payment reserve	Hedging reserve (note d)	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	—	—	44,148	1,039	—	—	539	45,726
Profit for the year	—	—	—	—	—	—	124,547	124,547
Cash flow hedging	—	—	—	—	—	514	—	514
Appropriation to statutory reserves	—	—	—	7,804	—	—	(7,804)	—
Issuance of new ordinary shares (Note 6 (a))	17,649	—	—	—	—	—	—	17,649
Shareholders' contributions (note e)	—	—	520	—	—	—	—	520
Deemed distribution to shareholders (note f)	—	—	(45,113)	—	—	—	(1,950)	(47,063)
As at 31 December 2015	<u>17,649</u>	<u>—</u>	<u>(445)</u>	<u>8,843</u>	<u>—</u>	<u>514</u>	<u>115,332</u>	<u>141,893</u>
As at 1 January 2016	17,649	—	(445)	8,843	—	514	115,332	141,893
Profit for the year	—	—	—	—	—	—	186,720	186,720
Cash flow hedging	—	—	—	—	—	(514)	—	(514)
Appropriation to statutory reserves	—	—	—	14,316	—	—	(14,316)	—
Issuance of new ordinary shares (Note 6 (f))	759,284	—	—	—	—	—	—	759,284
Capitalisation issue (Note 6 (e))	(16)	—	—	—	—	—	—	(16)
Conversion of redeemable convertible preferred shares (Note 6 (d))	221,927	—	—	—	—	—	—	221,927
Share issuance costs (Note 6 (f))	(39,093)	—	—	—	—	—	—	(39,093)
Share-based payment expense	—	—	—	—	102	—	—	102
Shares repurchased (note a)	(4,163)	(3)	—	—	—	—	—	(4,166)
As at 31 December 2016	<u>955,588</u>	<u>(3)</u>	<u>(445)</u>	<u>23,159</u>	<u>102</u>	<u>—</u>	<u>287,736</u>	<u>1,266,137</u>

- (a) During the year ended 31 December 2016, the Company adopted restricted share unit (“RSU”) scheme.

In February 2016, the Company repurchased 53,680,000 ordinary shares from JLJH YIHAI Ltd., one of the shareholders of the Company, at a total consideration of US\$638,108 (equivalent to RMB 4,166,000). These shares have been held by Vistra Fiduciary (HK) Limited (“RSU Trustee”) in trust for the benefit of the participants to the scheme and will be released to participants upon granting and vesting of each RSU. The shares under the RSU Scheme have been changed to 77,220,000 after the capitalisation issue as mentioned in Note 6 (e).

- (b) The merger reserve represented the aggregate difference between the considerations paid and the carrying amounts of the acquired Listed Business pursuant to the completion of the Reorganisation (Note 1).
- (c) The Company’s subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.
- (d) The hedging reserve represented the effective portion of the accumulative change in the fair value of hedging instruments, net of tax, pending subsequent recognition in profit or loss.
- (e) Shareholders’ contributions in 2015 represented the additions of land and buildings contributed by Sichuan Haidilao to Zhengzhou Shuhai (a wholly owned subsidiary of the Group). All of these assets contributed by Sichuan Haidilao were related to the operation of the Listed Business during 2015 and prior years.
- (f) Deemed distribution to shareholders in 2015 mainly represented drawings made by Sichuan Haidilao from the Listed Business; and the consideration of RMB 42.82 million paid by the Group in acquiring certain land and building from Sichuan Haidilao pursuant to the Reorganisation mentioned in Note 1.

8. Trade payables

Trade payables were mainly arising from the purchase of materials. The credit terms of trade payables granted by the vendors are usually 30 to 90 days. At 31 December 2016, the ageing analysis of the trade payables based on invoice date were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	68,155	42,937
3 to 6 months	2,576	352
6 months to 1 year	545	35
Total	<u>71,276</u>	<u>43,324</u>

9. Other payables and accruals

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and other employee benefits	16,019	10,590
Advances from customers	9,922	6,147
Other tax payables	8,933	5,773
Sales rebates	8,755	15,466
Suppliers' deposits	3,281	1,886
Listing related expenses	2,802	5,521
Related parties	4,045	141,633
Transportation	2,001	7,044
Marketing expenses payables	—	1,540
Payables for legal and professional fees	135	601
Others	855	714
Total	<u>56,748</u>	<u>196,915</u>

10. Expenses by nature

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials used	608,240	501,845
Changes in inventories of finished goods and work in progress	(24,573)	(21,933)
Employee benefit expenses	122,303	84,869
Advertising and other marketing expenses	33,116	31,677
Transportation and related charges	19,499	14,628
Depreciation of property, plant and equipment	13,825	19,233
Non-income Taxes and surcharges	12,295	7,268
Listing related expenses	10,637	8,339
Rental expenses	10,753	5,478
Utilities	9,854	9,248
Warehouse expenses	7,061	3,150
Legal and professional fees	5,696	3,113
Travel and entertainment expenses	5,825	3,912
Auditor's remuneration		
– Reporting accountant's services in relation to listing	904	1,421
– Audit services	1,950	170
– Non-audit services	330	—
Amortisation of land use rights	503	223
Amortisation of intangible assets	372	62
Management service fee	—	2,171
Provision for/(reversal of) impairment of receivables (Note 4 and 5)	112	(211)
Write-down of inventories	152	186
Other expenses	13,980	10,410
Total	<u>852,834</u>	<u>685,259</u>

11. Other incomes and gains-net

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grant	12,523	2,864
Consulting service income	7,547	—
Sales of scrap materials	517	594
Losses on disposal of property, plant and equipment	(780)	(2)
Others	1,674	23
Total other incomes and gains-net	<u>21,481</u>	<u>3,479</u>

12. Finance income - net

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest income	933	57
Exchange gain	32,759	1,304
Net finance income	<u>33,692</u>	<u>1,361</u>

13. Income tax expense

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	69,085	42,863
Deferred tax credit	(716)	(490)
Income tax expense	<u>68,369</u>	<u>42,373</u>

(a) *Cayman Islands income tax*

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

(b) *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 2016 and 2015, based on the existing legislation, interpretations and practices in respect thereof.

(c) *PRC withholding tax ("WHT")*

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

According to a shareholder's resolution of the immediate holding company of the PRC subsidiaries of the Group dated 31 December 2016, the retained earnings of the Group's subsidiaries incorporated in the PRC as at 31 December 2016 will not be distributed in the foreseeable future. As a result, no deferred tax liability was recognised.

14. Earnings per share

(a) Basic

Basic earnings per share for each of the years ended 31 December 2016 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	
	2016	2015
Profit attributable to owners of the Company (RMB'000)	<u>186,720</u>	<u>124,547</u>
Weighted average number of ordinary shares in issue less shares held for RSU Scheme (thousands)	<u>797,220</u>	<u>561,693</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for both years has been adjusted for the effect of 237,777,778 ordinary shares allotted, issued, and credited as fully paid to the then shareholders pursuant to the capitalisation issue immediately completing the Global Offering (Note 6(e)), and as if the aggregate effects of the Share Split had taken place at the beginning of 2015 (Note 6(b)).

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The RCPS and granted of Restricted Shares are the dilutive potential ordinary shares. On 13 July 2016, all RCPS were automatically converted into ordinary shares. During the year ended 31 December 2016, the Company's RCPS and granted of Restricted Shares were anti-dilutive and the diluted earnings per share is the same as basic earnings per share.

	Year ended 31 December	
	2016	2015
Earnings		
Profit attributable to owners of the Company (RMB'000)	186,720	124,547
Adjustment for fair value loss of RCPS (RMB'000)	<u>35,264</u>	<u>—</u>
Profit used to determine diluted earnings per share (RMB'000)	<u>221,984</u>	<u>124,547</u>
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	797,220	561,693
Adjustments for:		
– Assumed conversion of RCPS (thousands)	41,458	3,633
– Granted of Restricted Shares (thousands)	<u>716</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>839,394</u>	<u>565,326</u>

15. Dividends

No dividends were declared by the Company in 2015.

The board of directors of the Company proposed the payment of a final dividend of RMB 3.5671 cents per ordinary share out of share premium of the Company, amounting to RMB 37,344,000 for the year ended 31 December 2016, which is to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 31 May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

2016 PERFORMANCE REVIEW

In 2016, China recorded a GDP growth of 6.7%, a 26-year low. Against the backdrop of a slowdown in the economic growth in China, the catering industry and the consumer goods retail industry kept growing rapidly. In 2016, the market size of China's catering industry increased by 10.8% year-on-year to RMB3.6 trillion, while the total retail sales of consumer goods topped RMB33.0 trillion, a year-on-year increase of 10.4%. Benefiting from the notable growth in the catering industry and the consumer goods retail industry, as well as the ongoing upgrade of consumption as a result of the increased urbanization in China, the condiment industry, especially the compound condiment industry, achieved a relatively rapid growth in 2016. The market size of compound condiment in China is expected to reach RMB148.8 billion by 2020, representing a CAGR of 14.7% over 2015-2020 and 22.1% of the overall condiment market of China.

We are a leading and rapidly growing compound condiment producer in China. In 2016, against the backdrop of economic downturn in China, we still achieved a high growth in our business. For the year ended 31 December 2016, the Group recorded a revenue of RMB1,088.0 million, representing a year-on-year increase of 28.4%. For the year ended 31 December 2016, the net profit reached RMB186.7 million, representing a year-on-year increase of 49.9%.

With the smooth commencement and the positive preliminary effects of the nationwide channel development and channel adjustment strategy of the Group, the number of the Group's distributors has further increased in 2016, and the Group's control over sales promotion in sales terminal and product display was further strengthened. In 2016, the Group continued to deepen the distributor network penetration in North China, and to expand and deepen the distributor network penetration in South China and East China. As of 31 December 2016, the distributors of the Group covered 369 cities in China, an increase of 242% over 2015. As of 31 December 2016, the number of distributors of the Group was 782, representing an increase of 130.7% as compared to the end of 2015.

In 2016, the Group enhanced its research and development efforts. Based on the investigation and research of the taste and demand of consumers, the Group upgraded and improved some of its existing products, and also actively expanded its product portfolio. The Group successively launched the improved products including vegetable oil hot pot soup flavoring, improved spicy stir-fry pot condiment products, handmade beef tallow hot pot soup flavoring, pickles and fish stew condiment, premium boiled fish condiment, pickled chili sour fish soup condiment, spicy red swamp crawfish condiment and Chongqing-style noodles condiment. As of 31 December 2016, the Group introduced a total of 41 flavoring products, nine dipping sauce products and 15 Chinese-style compound condiments, representing an addition of 11 hot pot soup flavoring products and 11 Chinese-style compound condiments as compared to that as at the end of 2015.

BUSINESS REVIEW

We are a leading and rapidly growing compound condiment producer in China. In 2016, against the backdrop of economic downturn in China, we still achieved a high growth in our business. For the year ended 31 December 2016, the Group recorded a revenue of RMB1,088.0 million, representing a year-on-year increase of 28.4%. For the year ended 31 December 2016, the net profit reached RMB186.7 million, representing a year-on-year increase of 49.9%.

Sales Channels

In China, the Group is the exclusive supplier of hot pot soup flavoring products to Haidilao Group, supplying customized hot pot soup flavoring products to Sichuan Haidilao Catering Corporation Limited and its subsidiaries and Hai Di Lao Holdings Pte. Ltd. and its subsidiaries (together, the “**Haidilao Group**”), and supplying retail products and customized condiments to Shuhai Supply Chain and Youdingyou (related parties of the Company). The Group is also a provider of cooking condiment to home cooking customers, suppliers of catering services and food companies in China.

In terms of the sales to related parties (referring to the Haidilao Group and associated companies) in 2016, the Haidilao Group achieved stable growth in same store sales and rapid expansion in the number of restaurants, benefiting from the growth in the catering industry and the hot pot catering consumption market in China. The Group’s revenue from sales to related parties amounted to RMB605.7 million, representing an increase of 30.2% as compared to 2015.

In terms of sales to third parties, the focus of operation of the Group in 2016 was exploring sales channels, expanding sales channels to lower tier cities, and improving product structures. The Group divided its retail business into three geographic regions, namely North China, South China and East China, to better adapt to the distinct regional characteristics of the condiment industry. In North China, the Group nurtured existing sales channels in first and second-tier cities while developing sales channels in third and fourth-tier cities, and expanded its marketing networks to lower tier cities. In South China and East China, the Group strengthened the development of distributors, and refined and expanded the channel construction. As of 31 December 2016, the distributors of the Group covered 369 cities in China, an increase of 242.0% over 2015; the number of distributors of the Group was 782, representing an increase of 443 or 130.7% as compared with the end of 2015.

Affected by the overall economy in China and the seasonality of the Group’s products, together with the restructuring of distributor channels by the Group in the first half of 2016, the Group recorded a slowdown in the growth of retail to third parties during that period. Into the second half of 2016, however, the Group booked remarkable recovery in the growth of sales to third parties, following the completion of the Group’s restructuring of distributor channels and the peak season of the hot pot catering market. In the year ended 31 December 2016, the Group’s sales revenue from sales to the third parties amounted to RMB482.3 million, representing a year on-year increase of 26.2%.

In 2016, the Group provided strong support to the development and optimization of e-commerce channels. On one hand, the online marketing efforts were increased, such as expanding and strengthening the multiple consumption scenarios which can make consumers sticky, and expanding and improving product portfolios. On the other hand, the management and standardization of e-commerce channels were strengthened, including optimizing purchase channels and managing online pricing system. In the year ended 31 December 2016, the Group established five flagship stores on such e-commerce platforms as Tmall and Suning E-commerce. Sales revenue of the Group from e-commerce channels in 2016 was RMB29.0 million, representing a year-on-year increase of 422.9%.

In 2016, the Group continued to enhance its efforts to provide management and support in relation to diversified product portfolios to third-party catering companies (including but not limited to hot pot restaurants, baked fish restaurants, South Korean restaurants and Chinese-style catering factories, etc). While maintaining a close and friendly cooperation with existing customers, the Group actively explored third-party catering company customers and developed catering standardized products and customized products for such customers. The number of the Group's third-party catering company customers had increased from 17 in 2015 to 44 in 2016. Sales revenue from sales to third parties for 2016 amounted to RMB5.8 million, representing a year-on-year increase of 277.3%.

In 2016, the Group further expanded its sales network in overseas markets by capturing the opportunities arising from the global business growth of the Haidilao Group. As of 31 December 2016, the Group exported products of eight categories to 14 countries and regions, including Hong Kong, Macau, Burma and Malaysia which were new export destinations in 2016. For the year ended 31 December 2016, revenue from products that the Group exported was RMB20.8 million, up by 252.5% over 2015.

Products

With urbanization in China becoming common, the consumption level and the product structure continued to improve, and the consumers' awareness of the importance of food safety has strengthened over time. It is a general trend to select quality products with high brand recognition and with guaranteed food quality and safety. As the largest producer of mid/high-end hot pot soup flavoring condiment in China, the Group took the lead in capturing the industry trend, further strengthened product research and development as well as structural upgrade, and continued to supply condiment products which better meet the needs of consumers.

In 2016, the Group successively launched such products as improved vegetable oil hot pot soup flavoring, improved spicy stir-fry pot condiments, handmade beef tallow hot pot soup flavoring, pickles and fish stew condiment, premium boiled fish condiment, pickled chili sour fish soup condiment, spicy red swamp crawfish condiment and Chongqing-style noodles condiment. Through marketing activities held at retail channels, such as tasting events and roadshows, as well as other marketing events such as Chinese New Year promotion events and "Hot Pot Festival" events which catered to the market demand, the Group reached over 10 million consumers and effectively boosted

its terminal sales. The Group also communicated with consumers and promoted our promotion materials through new social media (such as Wechat). As of 31 December 2016, the official Wechat account of the Group had around 700,000 fans.

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

	Year ended December 31					
	2016			2015		
	Revenue	Sales Volume	ASP ⁽¹⁾	Revenue	Sales Volume	ASP
	(RMB'000)	(Tons)	(RMB per kg)	(RMB'000)	(Tons)	(RMB per kg)
Hot pot soup flavoring						
Third parties	288,745	9,323	31.0	251,909	8,235	30.6
Related parties	583,778	21,573	27.1	446,743	16,566	27.0
Sub Total	872,523	30,896	28.2	698,652	24,801	28.2
Hot pot dipping sauce						
Third parties	73,856	4,290	17.2	41,157	2,259	18.2
Related parties	104	6	18.8	53	3	17.7
Sub Total	73,960	4,296	17.2	41,210	2,262	18.2
Chinese-style compound condiment						
Third parties	116,351	4,962	23.4	87,720	3,338	26.3
Related parties	18,194	706	25.8	7,511	383	19.6
Sub Total	134,545	5,668	23.7	95,231	3,721	25.6
Others⁽²⁾	6,986	577	12.1	12,246	1,264	9.7
Total	1,088,014	41,437	26.3	847,339	32,048	26.4

Note:

- (1) ASP refers to Average Selling Price.
- (2) Mainly including sales of certain raw materials to related parties in the first half of the year (such as chili, Chinese prickly ash and spice), and sales of certain products to third parties in the whole year (such as wide sweet potato vermicelli and two-flavor hot pot).

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

	Year ended December 31			
	2016		2015	
	RMB'000	% of revenue	RMB'000	% of revenue
Revenue from hot pot soup flavoring	872,523	80.2%	698,652	82.5%
Revenue from hot pot dipping sauce	73,960	6.8%	41,210	4.9%
Revenue from Chinese-style compound condiment	134,545	12.4%	95,231	11.2%
Other revenues	6,986	0.6%	12,246	1.4%
Total revenue	<u>1,088,014</u>	<u>100.0%</u>	<u>847,339</u>	<u>100.0%</u>

In 2016, sales of all the three major products of the Group, namely hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment, increased as compared to 2015. The Group further increased its efforts in new product research and development, and continued to optimize its product structure. In 2016, the Group introduced 11 new hot pot soup flavoring products and 11 new Chinese-style compound condiment products. As of 31 December 2016, the Group had a total of 41 flavoring products, nine dipping sauce products and 15 Chinese-style compound condiment products.

FINANCIAL REVIEW

Revenue

In the year ended 31 December 2016, the revenue of the Group increased by 28.4% from RMB847.3 million in the year ended 31 December 2015 to RMB1,088.0 million, mainly attributable to the increase in sales of our hot pot soup flavoring, hot pot dipping sauce and Chinese style compound condiment products.

Revenue by Product

	Year ended December 31			
	2016		2015	
	Revenue (RMB'000)	% of hot pot soup flavoring revenue	Revenue (RMB'000)	% of hot pot soup flavoring revenue
Hot pot soup flavoring revenue				
Revenue from third parties	288,745	33.1%	251,909	36.1%
Revenue from related parties	583,778	66.9%	446,743	63.9%
Total revenue from hot pot soup flavoring products	872,523	100.0%	698,652	100.0%

The Group's revenue from hot pot soup flavoring products increased by 24.9% from RMB698.7 million in 2015 to RMB872.5 million in 2016, accounting for 80.2% of the revenue for the year ended 31 December 2016, of which, revenue from sales of hot pot soup flavoring products sold to related parties increased by 30.7%, while revenue from sales of hot pot soup flavoring products sold to third parties increased by 14.6%. Revenue from sales of hot pot soup flavoring products sold to related parties increased due to the steady growth in the same store revenue of Haidilao Group and the as well as increased number of Haidilao Group stores. In 2016, the Group's restructuring of distributor channel has mostly completed. With the Group's distribution network deepened and expanded, the Group's revenue from sales of hot pot soup flavoring products sold to third parties increased as compared with 2015.

	Year ended December 31			
	2016		2015	
	Revenue (RMB'000)	% of hot pot dipping sauce revenue	Revenue (RMB'000)	% of hot pot dipping sauce revenue
Hot pot dipping sauce revenue				
Revenue from third parties	73,856	99.9%	41,157	99.9%
Revenue from related parties	104	0.1%	53	0.1%
Total revenue from hot pot dipping sauce products	73,960	100.0%	41,210	100.0%

The Group's revenue from hot pot dipping sauce products increased by 79.5% from RMB41.2 million in 2015 to RMB74.0 million in 2016, accounting for 6.8% of the revenue for the year ended 31 December 2016, of which, revenue from sales of hot pot dipping sauce products sold to related parties increased by 96.2%, while revenue from sales of hot pot dipping sauce products sold to third parties increased by 79.4%. Revenue from sales of hot pot dipping sauce products of the Group is primarily derived from sales to third parties, the growth of which was mainly attributable to the market recognition of the dipping sauce products on which the Group has focused its marketing efforts. This had driven the sales of hot pot dipping sauce products in 2016.

	Year ended December 31			
	2016	% of	2015	% of
	Revenue	Chinese-	Revenue	Chinese-
	(RMB'000)	style	(RMB'000)	style
		compound		compound
		condiment		condiment
		products		products
		revenue		revenue
Chinese-style compound condiment products				
Revenue from third parties	116,351	86.5%	87,720	92.1%
Revenue from related parties	18,194	13.5%	7,511	7.9%
Total revenue from Chinese-style compound condiment products	134,545	100.0%	95,231	100.0%

The Group's revenue from Chinese-style compound condiment products increased by 41.3% from RMB95.2 million in 2015 to RMB134.5 million in 2016, accounting for 12.4% of the revenue for the year ended 31 December 2016, of which revenue from sales of Chinese-style compound condiment products to related parties increased by 142.2%, while revenue from sales of Chinese-style compound condiment products to third parties increased by 32.6%. In respect of sales to related parties, the Group carried out cooperation with certain catering customers in the Shuhai Supply Chain to develop new drivers of revenue growth. The Group introduced two new fish condiment products (sour fish soup condiment and premium boiled fish condiment) in 2016 to complement the sales of existing pickles and fish stew condiment. The Group has also continuously upgraded and improved its Chinese-style compound condiment products such as the spicy stir-fry pot condiment in accordance with the market taste and demand, which has driven the increase in revenue from sales of Chinese-style compound condiment products to third parties.

Revenue by Distribution Network

	Year ended December 31			
	2016		2015	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Related-party customers				
Haidilao Group and its affiliates	605,728	55.7%	465,103	54.9%
Third-party customers				
Distributors	442,358	40.7%	370,420	43.7%
E-commerce	28,986	2.7%	5,543	0.7%
Others				
Third-party catering companies	5,836	0.5%	1,547	0.2%
One-off sales events	5,106	0.4%	4,726	0.5%
Total revenue	1,088,014	100.0%	847,339	100.0%

Benefiting from the growth in consumption of hot pot catering, the Haidilao Group grew steadily in both the same store sales revenue and the number of restaurants. The Group's sales revenue from sales to related parties, which mainly represents sales to the Haidilao Group and its associated companies, amounted to RMB605.7 million in 2016, representing an increase of 30.2% as compared to 2015.

Affected by the overall economy in China and the seasonality of the Group's products, together with the restructuring of distributor channels by the Group in the first half of 2016, the Group recorded a slowdown in the growth of retail to third parties during that period. Into the second half of 2016, however, the Group booked remarkable recovery in the growth of sales to third parties, following the completion of the Group's restructuring of distributor channels and the peak season of the hot pot catering market. In the year ended 31 December 2016, the Group's sales revenue from sales to the third parties amounted to RMB482.3 million, representing a year-on-year increase of 26.2%.

In 2016, sales revenue of the Group from e-commerce channels in 2016 was RMB29.0 million, representing a year-on-year increase of 422.9%. This was mainly attributable to the Group's increased online marketing efforts, including the expansion and strengthening of the multiple consumption scenarios which can make consumers sticky, and the expansion and improvement of product portfolios etc.

In 2016, sales revenue of the Group from sales to third-party catering companies amounted to RMB5.8 million, representing a year-on-year increase of 277.3%. The growth in revenue from sales to third-party catering companies mainly came from the provision of standardized and customized catering products to new customers that the Group actively developed among third-party catering service providers. The number of the Group's third-party catering company customers had increased from 17 in 2015 to 44 in 2016.

As compared to 2015, revenue from the Group's exports increased by 252.5% to RMB20.8 million in 2016. In 2016, the Group further expanded its overseas sales network by capturing the opportunities arising from the global business growth of the Haidilao Group. As of 31 December 2016, the Group exported products of eight categories to 14 countries and regions, resulting in a year-on-year increase in overseas sales.

Revenue by Geographic Region

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

	Year ended December 31			
	2016	% of	2015	% of
	(RMB'000)	revenue	(RMB'000)	revenue
North China ⁽³⁾	593,427	54.6%	494,433	58.4%
South China ⁽⁴⁾	473,799	43.5%	347,008	41.0%
Overseas markets	20,788	1.9%	5,898	0.6%
Total	<u>1,088,014</u>	<u>100.0%</u>	<u>847,339</u>	<u>100.0%</u>

Note:

- (3) Includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Beijing, Tianjin, Hebei, Shandong, Shanxi, Henan, Ningxia, Shaanxi, Gansu, Qinghai, Xinjiang and Tibet.
- (4) Includes Jiangsu, Shanghai, Zhejiang, Anhui, Jiangxi, Fujian, Hubei, Hunan, Guangdong, Chongqing, Guizhou, Guangxi, Sichuan, Yunnan and Hainan.

Cost of Sales

The Group's cost of sales, including raw materials, employee benefit expenses, depreciation and amortization and utilities increased by 21.3% from RMB553.1 million in 2015 to RMB671.1 million in 2016. Such increase in 2016 was mainly because of the increase in sales of hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment products, which led to an increase in the corresponding raw material costs.

Gross Profit and Gross Profit Margin

	Year ended December 31			
	2016		2015	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Hot pot soup flavoring products	328,037	37.6%	238,170	34.1%
Third parties	161,832	56.0%	129,995	51.6%
Related parties	166,205	28.5%	108,175	24.2%
Hot pot dipping sauce products	25,381	34.3%	13,316	32.3%
Third parties	25,338	34.3%	13,305	32.3%
Related parties	43	41.4%	11	20.8%
Chinese-style compound condiment products	63,078	46.9%	41,163	43.2%
Third parties	56,282	48.4%	39,163	44.6%
Related parties	6,796	37.4%	2,000	26.6%
Others	446	6.4%	1,584	12.9%
	416,942	38.3%	294,233	34.7%

The Group's gross profit increased by 41.7% from RMB294.2 million in 2015 to RMB416.9 million in 2016, and the gross profit margin increased from 34.7% 2015 to 38.3% for the corresponding period of 2016. The increase in gross profit margin was primarily due to the Group's improvement in production process, and selection and control of raw materials and their costs during 2015 to 2016.

Distribution Expenses

The Group's distribution expenses increased by 36.2% from RMB93.9 million in 2015 to RMB127.9 million in 2016, at a growth rate largely consistent with that of revenue. The Group's distribution expenses as a percentage of the Group's revenue increased from 11.1% in 2015 to 11.8% in 2016. The slight increase in distribution expenses was mainly due to the increase in distribution expenses as a result of the optimization and restructuring of distributor channels carried out by the Group in the first half of 2016. To meet the demand for business expansion, the number of marketing staff expanded as compared with the corresponding period of 2015, leading to a year-on-year increase in related salaries and benefit expenses.

Administrative Expenses

The Group's administrative expenses increased by 40.7% from RMB38.3 million in 2015 to RMB53.8 million in 2016. The Group's administrative expenses as a percentage of the Group's revenue increased from 4.5% in 2015 to 4.9% in 2016, mainly due to the year-on-year increase in the number of administrative staff as a result of business expansion, leading to increase in related salaries and benefit expenses as compared to the corresponding period in 2015. Besides, expenses related to the listing also contributed to the aforesaid year-on-year increase in administrative expenses.

Other Incomes and Gains

The Group's other incomes and gains-net increased by 517.4% from RMB3.5 million in 2015 to RMB21.5 million for the corresponding period of 2016, mainly due to financial subsidies, government grants and advisory services revenue received by the Group.

Fair Value Loss of Redeemable Convertible Preferred Shares

For the year ended 31 December 2016, the Group's fair value loss of redeemable convertible preferred shares was RMB35.3 million. The loss is mainly due to the fact that the redeemable convertible preferred shares the Company issued in 2015 were initially and subsequently measured at fair value and the fair value of such redeemable convertible preferred shares as of 13 July 2017 had changed from that as of 31 December 2015. The fair value loss is a one-off item.

Finance Income - net

The Group's finance income-net increased from RMB1.4 million in 2015 to RMB33.7 million in 2016, mainly due to the Hong Kong dollars received by the Group from the initial public offering of the Company in 2016 and the exchange gain in 2016 arising from the devaluation of RMB.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 52.8% from RMB166.9 million in 2015 to RMB255.1 million in 2016.

Income Tax Expense

The Group's income tax expense increased by 61.4% from RMB42.4 million in 2015 to RMB68.4 million in 2016. The effective tax rate increased from 25.4% in 2015 to 26.8% in 2016, mainly due to the fact that the fair value loss of redeemable convertible preferred shares in 2016 is not tax deductible.

Profit for Reporting Period attributable to Owners of the Company

As a result of the foregoing, profit attributable to owners of the Company increased from RMB124.5 million in 2015 to RMB186.7 million in 2016. Basic earnings per share increased from RMB0.222 in 2015 to RMB0.234 in 2016 and net profit margin increased from 14.7% in 2015 to 17.2% in 2016.

Capital Liquidity and Financial Resources

As of 31 December 2016, the Group's business was mainly funded by the cash generated from its operation. The Group intended to apply internal resources, net proceeds derived from organic and sustainable development and from the global offering for the purpose of funding its expansion and business operation.

Cash and Cash Equivalents

As at 31 December 2016, the Group's cash and cash equivalents primarily denominated in RMB and Hong Kong dollars and, to a lesser extent, in US dollars. The Group's cash and cash equivalents increased by 334.5% from RMB235.2 million in 2015 to RMB1,022.0 million, mainly due to the amount raised during the initial public offering in 2016.

Asset-liability Ratio

As at 31 December 2016, the Group's asset-liability ratio⁽⁵⁾ was 11.1%, notably down from 75.9% in the corresponding period of 2015, mainly due to reasons below. In terms of liabilities, 1) the Company's redeemable convertible preferred shares were converted into ordinary shares after the listing; 2) repayment of other payables to related parties, which is used in the construction of Zhengzhou production facilities. Thus, as of 31 December 2016, other payables due to related parties decreased markedly as compared to the corresponding period of 2015. In terms of assets, the asset scale expanded due to the proceeds raised from the Company's listing in 2016.

Note (5): Asset-liability ratio is calculated by dividing total liabilities by total assets at the end of each financial period.

Inventories

Our inventories primarily consist of raw materials, work-in-progress and finished goods. As at 31 December 2016, our inventories expanded from RMB102.8 million in 2015 to RMB130.5 million, mainly due to the Group's year-on-year increase in the amount of inventories as of 31 December 2016 to meet the growing sales. The turnover days of inventories slightly increased from 61.4 days in 2015 to 63.4 days in 2016, remaining largely flat in these two years.

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 2016, our trade receivables increased from RMB63.8 million in 2015 to approximately RMB67.1 million, mainly due to the Group's year-on-year increase in sales to related parties and certain third parties (such as JD.com and customized catering products) as of 31 December 2016. Turnover days of trade receivables rose from 16.1 days in 2015 to 22.0 days in 2016, mainly due to the balance of trade receivables as at the end of 2014 fell below normal value; and upon completion of the Reorganization, the Group ceased to make offset in respect of the trade receivables for the amounts due from Haidilao Group in 2015.

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 2016, our trade payables increased from RMB43.3 million in 2015 to approximately RMB71.3 million, mainly due to increase in raw material procurements as a result of the Group's production expansion to meet the sales growth. Turnover days of trade payables slightly increased from 26.5 days in 2015 to 31.2 days in 2016.

Contingent Liabilities

As at December 31, 2016, the Group did not have any contingent liabilities.

Charge of Assets

As at 31 December 2016, the Group did not charge any fixed assets as securities for borrowings.

Borrowings

As at 31 December 2016, the Group did not have any bank borrowings.

Debt-to-equity Ratio

As at 31 December 2016, the Group's debt-to-equity⁽⁵⁾ was zero.

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

Foreign Exchange Risk and Hedging

The Group mainly operates in China with most of the transaction denominated and settled in RMB. However, the Group has certain cash denominated in HKD and USD, which is exposed to foreign currency exchange risks. The Group has not hedged its foreign currency exchange risks, but will closely monitor the exposure and will take measures when necessary to make sure the foreign exchange risks are manageable.

Employees and Remuneration Policy

As at 31 December 2016, the Group had a total of 1,135 employees, comprising of 630, 390 and 115 staffs in production, marketing, and administration and management functions respectively.

The Group usually employs temporary contract workers during peak seasons to assist with production. As at 31 December 2016, we had 288 temporary contract workers.

For the year ended 31 December 2016, the Group incurred total staff costs (including salaries, wages, allowance, benefits and equity incentive plan costs) of RMB122.3 million.

In February 2016, we adopted the RSU Scheme (as defined in the below section titled “The Restricted Share Unit Scheme”) that permits the granting of RSUs (as defined in the below section titled “The Restricted Share Unit Scheme”) to (i) the Directors, officers, senior management and certain employees of the Company; and (ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of the Group. As at December 28, 2016, 9,140,000 RSUs were granted or agreed to be granted by the Company to 81 of the Group’s employees and/or senior officers and the Group’s business partners (not related parties of the Company, except for two directors Ms. Dang Chunxiang and Mr. Sun Shengfeng) under the RSU Scheme, equivalent to 9,140,000 shares. As at 31 December 2016, underlying shares involved accounted for approximately 0.87% of the Company’s outstanding shares. As measured by the closing price on the date of grant was HK\$3.18, the value of 9,140,000 RSUs was HK\$29,065,200. The grantees of such RSUs shall pay US\$0.0082 (approximately HK\$0.06) for the grant of each RSU under the RSU Scheme. For details, see note 7(a) to this results announcement.

Major Acquisitions and Disposals

As of 31 December 2016, the Group had no acquisitions or disposals in relation to its affiliated companies, associated companies and joint ventures.

FUTURE PROSPECT

Industry Outlook

2016 is the first year of the Thirteenth Five-year Plan period, in which the national economy maintained a steady development, and the boost of consumption to the economy has taken further effect. Specifically, catering consumption grew at a relatively high rate of 10.8% over last year. Quality consumption, green consumption and fashionable consumption were key words of consumption this year. In 2016, the condiment industry of China also grew steadily. With the market demand being continuously released and the further acceleration of product upgrades, the economies of scale achieved by a leading enterprise continues to be demonstrated.

Meanwhile, Chinese consumers' awareness of the importance of food safety has deepened over time. More and more consumers intend to select high-quality products with high brand recognition, and are willing to purchase high-quality products at higher prices to ensure food quality and safety. With the penetration of e-commerce into many aspects of the people's daily lives, the competition in online channels has intensified, and the sales channels of condiment industry faces the integration of online and offline channels. As the largest producer of mid/high-end hot pot soup flavoring condiment in China, the Group will capture the growth dividend resulting from the upgrade of consumption in China and opportunities in the consolidation of the condiment industry, continue to improve the Group's market share and position through organic growth and external development, and continue to provide quality products which can meet the consumers' demand for food safety and taste.

Business Outlook

In 2017, the Group will continue to enhance its research and development efforts, extend the penetration of its products, improve the sales capacity of its terminals, and enhance its market share and position.

In terms of product positioning, the Group will firmly capitalize on the market influence of the Haidilao brand, and upgrade and optimize the presentation of its products when appropriate. The Group will enhance the consumers' awareness of the brand, attention to its products and recognition of and preference for the product contents.

In terms of research and development of products, the Group will focus on products attracting great attention in the market, and will gradually introduce new products catering to the market demand in various aspects such as packaging, taste and product diversification, by continuously optimizing and upgrading existing products while actively developing new products.

In terms of channel development, the Group will continue its reform of sales channels by nurturing its existing sales channels in first and second-tier cities, and developing sales channels in third and fourth-tier cities. The Group will continue to improve the sales capacity of terminals by expanding sales channels to lower tier cities.

In terms of marketing, the Group will focus on key products and enhance the effectiveness of channels and terminals, intensely explore and develop the marketing efforts in different scenarios and in different regions, and pay attention to consumer feedback to improve and upgrade products from the aspect of packaging or taste etc.

In terms of team building, the Group will consistently ensure internal promotion channels and foster entrepreneurship, actively maximize the passion and creativity of its staff, and attach importance to employment, training and development of its staff.

In terms of food safety, the Group will continue to devote itself to ensuring food quality by closely following the evolving consumer expectations and food safety criteria.

Material Investments and Prospect

The total investment amount of the Group's Bazhou Project is expected to be RMB300 million. Phase I is expected to complete construction at the end of 2018 and enter into operation at the beginning of 2019. Phase II is expected to complete construction and enter into operation in 2020. The completion and operation of Phase I are later than expected, mainly because of the slight delay in its commencement as a result of complying with the circular of the Langfang Municipal Government regarding the Ten Strict Measures on Preventing Air Pollution in Langfang. The Bazhou Project can effectively increase the Group's existing production capacity, ease the pressure from sharp increase in the demand for production capacity during peak seasons, and reduce its reliance on contract manufacturers. It can also optimize the Group's product portfolio by effectively expanding the production lines for new products. Furthermore, it can maximise the upgrade to the Group's storage facilities. The Bazhou project can help the Group better control and manage logistics costs due to its central geographic location in North China.

Future Plans for Material Investments

As of 31 December 2016, the Group did not have any material investments, acquisitions or disposals. In addition, other than the expansion plans as disclosed in sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group did not have any specific plans for material investments or acquisition of material capital assets or the actual operation of other businesses. However, the Group will continue to extensively identify potential strategic investment opportunities, continuously seek to acquire potential high-quality synergetic target businesses that can complement its 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 period from 13 July 2016 (the "**Listing Date**") up to the date of this announcement.

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 period from the Listing Date up to the date of this announcement.

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 period from the Listing Date and up to the date of this announcement.

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 2016.

Audit Committee

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

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the 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 2016 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.*Company to confirm*

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 2016 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.*PwC to confirm*

Use of Proceeds from the Global Offering

As disclosed in the Company's 2016 interim report, the Company raised net proceeds of approximately HK\$797.3 million in aggregate from the global offering (including the net proceeds of approximately HK\$22.1 million raised from the issue of shares for the partial exercise of over-allotment option), which were intended to be mainly used for the following purposes: (1) constructing Phase I of the Bazhou Production Base located in Bazhou, Hebei Province; (2) potential strategic acquisition opportunities in the future; (3) promoting products and brand; (4) enhancing research and development capabilities; and (5) working capital and general corporate purposes. Such net proceeds were calculated after the deduction of relevant underwriting commission, estimated expenses payable by the Company, transaction levy and trading fee.

As at the end of the Reporting Period, the Company cumulatively used 1.71% of the proceeds from the global offering for the abovementioned purposes.

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.

Events After the End of the 31 December 2016

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2016 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 Wednesday, 31 May 2017 (the “AGM”) for the distribution of a final dividend of RMB3.5671 cents per share for the year ended 31 December 2016. The final dividend is expected to be paid on or about Monday, 19 June 2017 to the Shareholders whose names are listed in the register of members of the Company on Thursday, 8 June 2017, in an aggregate of approximately RMB37,344,000. 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, 28 March 2017. 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, 25 May 2017 to Wednesday, 31 May 2017, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on Wednesday, 31 May 2017. The Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 31 May 2017 (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, 24 May 2017.

The register of members of the Company will also be closed from Tuesday, 6 June 2017 to Thursday, 8 June 2017, 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 Thursday, 8 June 2017 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 Monday, 5 June 2017.

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 2016 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.
Gou Yiqun
Chairman

Hong Kong, 28 March 2017

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