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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “**Board**”) of Yihai International Holding Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**” or “**We**”) for the six months ended 30 June 2022 (the “**Reporting Period**”), together with comparative figures for the same period of 2021.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB2,688.5 million for the six months ended 30 June 2022, a 2.2% increase from RMB2,630.8 million for the six months ended 30 June 2021.
- Gross profit was RMB765.1 million for the six months ended 30 June 2022, a 11.1% decrease from RMB861.0 million for the six months ended 30 June 2021.
- Operating profit was RMB389.3 million for the six months ended 30 June 2022, a 24.5% decrease from RMB515.8 million for the six months ended 30 June 2021.
- Net profit attributable to the owners of the Company was RMB263.1 million for the six months ended 30 June 2022, a 24.6% decrease from RMB348.8 million for the six months ended 30 June 2021.
- Earnings per share (basic) was RMB26.84 cents for the six months ended 30 June 2022, a 24.5% decrease from RMB35.56 cents for the six months ended 30 June 2021.

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		1,486,211	1,283,259
Right-of-use assets		255,906	281,103
Intangible assets		19,319	20,295
Deferred income tax assets		53,585	45,162
Financial assets at fair value through profit or loss		109,897	114,929
Term deposits with initial term over one year		551,499	660,000
Other non-current assets	5	160,765	205,373
		<u>2,637,182</u>	<u>2,610,121</u>
Total non-current assets			
Current assets			
Inventories		404,261	395,280
Other current assets	5	129,442	166,684
Trade receivables	6	132,546	236,522
Other financial assets at amortised cost		19,017	17,646
Financial assets at fair value through profit or loss		–	5,000
Term deposits with initial term over three months and within one year		–	204
Cash and cash equivalents		1,586,083	1,573,621
		<u>2,271,349</u>	<u>2,394,957</u>
Total current assets			
		<u>4,908,531</u>	<u>5,005,078</u>
Total assets			
Equity			
Equity attributable to owners of the Company			
Share capital	7	68	68
Shares held for employee share scheme		(4)	(4)
Other reserves		328,321	558,686
Retained earnings		3,509,980	3,246,836
		<u>3,838,365</u>	<u>3,805,586</u>
Capital and reserves attributable to owners of the Company		3,838,365	3,805,586
Non-controlling interests		176,023	303,150
		<u>4,014,388</u>	<u>4,108,736</u>
Total equity			

	Note	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		93,125	104,415
Deferred income tax liabilities		34,653	36,062
Other non-current liabilities		25,933	22,563
		<u>153,711</u>	<u>163,040</u>
Total non-current liabilities			
Current liabilities			
Trade payables	8	299,599	294,260
Contract liabilities		50,926	108,466
Lease liabilities		36,089	36,976
Other payables and accruals		301,202	197,197
Current income tax liabilities		52,616	96,403
		<u>740,432</u>	<u>733,302</u>
Total current liabilities			
Total liabilities			
		<u>894,143</u>	<u>896,342</u>
Total equity and liabilities			
		<u>4,908,531</u>	<u>5,005,078</u>

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Unaudited Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue	4	2,688,482	2,630,804
Cost of sales	9	<u>(1,923,375)</u>	<u>(1,769,831)</u>
Gross profit		765,107	860,973
Distribution expenses	9	(314,491)	(326,291)
Administrative expenses	9	(126,214)	(134,719)
Other income and gains – net	10	<u>64,913</u>	<u>115,815</u>
Operating profit		<u>389,315</u>	<u>515,778</u>
Finance income	11	15,225	11,269
Finance costs	11	<u>(3,157)</u>	<u>(2,178)</u>
Finance income – net	11	<u>12,068</u>	<u>9,091</u>
Profit before income tax		401,383	524,869
Income tax expense	12	<u>(105,366)</u>	<u>(132,476)</u>
Profit for the period		<u>296,017</u>	<u>392,393</u>
Profit for the period attributable to:			
– Owners of the Company		263,144	348,836
– Non-controlling interests		<u>32,873</u>	<u>43,557</u>
		<u>296,017</u>	<u>392,393</u>
Other comprehensive losses			
<i>Items that may be reclassified to profit or loss</i>			
– Currency translation differences		<u>(5,802)</u>	<u>(4,692)</u>
Other comprehensive loss for the period, net of tax		<u>(5,802)</u>	<u>(4,692)</u>
Total comprehensive income for the period		<u>290,215</u>	<u>387,701</u>
Total comprehensive income for the period attributable to:			
– Owners of the Company		257,342	344,357
– Non-controlling interests		<u>32,873</u>	<u>43,344</u>
		<u>290,215</u>	<u>387,701</u>
Earnings per share attributable to owners of the Company (expressed in RMB cents per share)			
– Basic	13	26.84	35.56
– Diluted	13	<u>26.84</u>	<u>35.56</u>

Notes:

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 interim condensed consolidated financial information are presented in Renminbi (“RMB”), unless otherwise stated.

This interim condensed consolidated financial information was approved for issue by the board of directors of the Company on 30 August 2022.

This interim condensed consolidated financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard 34 “*Interim Financial Reporting*” (“IAS 34”).

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this interim condensed consolidated financial information is to be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3. ACCOUNTING POLICIES

The accounting policies applied to the preparation of this condensed consolidated interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2021, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings. A number of amended standards and annual improvements became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards and annual improvements.

Impact of standards issued but not yet applied by the Group

Certain new or amended accounting standards have been published but are not mandatory for reporting period commencing 1 January 2022 and have not been early adopted by the Group. These new or amended standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4. REVENUE AND SEGMENT INFORMATION

Management determines the operating segments based on the reports reviewed by the chief operating decision makers (“CODM”) that are used to make strategic decisions. The Group’s revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacturing and sales of hot pot condiment, Chinese-style compound condiment, convenient ready-to-eat food products and others to third party and related party customers, which are considered by the CODM as one segment. The Group’s principal market is mainland China and its sales to overseas customers contributed to less than 10% of the total revenues for the six months ended 30 June 2022 and 2021. Accordingly, no geographical information is presented.

Breakdown of revenue by product categories is as follows:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB’000	RMB’000
Revenue recognised at a point in time		
Hot pot condiment		
– Related parties	613,031	816,956
– Third parties	809,895	692,431
Subtotal	<u>1,422,926</u>	<u>1,509,387</u>
Chinese-style compound condiment		
– Related parties	4,833	25,612
– Third parties	338,022	296,358
Subtotal	<u>342,855</u>	<u>321,970</u>
Convenient ready-to-eat food products		
– Related parties	41,572	50,673
– Third parties	855,695	697,835
Subtotal	<u>897,267</u>	<u>748,508</u>
Others		
– Related parties	45	33
– Third parties	25,389	50,906
Subtotal	<u>25,434</u>	<u>50,939</u>
Total	<u><u>2,688,482</u></u>	<u><u>2,630,804</u></u>

Revenue from sales attributable to related parties accounted for approximately 24.5% and 34.0% of the Group’s total revenue for the six months ended 30 June 2022 and the six months ended 30 June 2021, respectively.

5. OTHER ASSETS

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Prepayments for property, plant and equipment	160,765	205,373
Prepayments for purchase of raw materials	74,041	90,579
Value-added tax recoverable	35,495	46,346
Prepayments for marketing and consulting expenses	13,879	20,889
Prepayments for short-term leases of warehouses and staff quarters	1,797	3,283
Others	4,230	5,587
	<u>290,207</u>	<u>372,057</u>
Less: non-current items	<u>(160,765)</u>	<u>(205,373)</u>
Other current assets	<u>129,442</u>	<u>166,684</u>

6. TRADE RECEIVABLES

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Trade receivables		
– Third parties	4,427	20,503
– Related parties	128,329	216,229
	<u>132,756</u>	<u>236,732</u>
Less: provision for impairment	<u>(210)</u>	<u>(210)</u>
Trade receivables – net	<u>132,546</u>	<u>236,522</u>

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Within 3 months	132,560	236,732
3 to 6 months	196	–
	<u>132,756</u>	<u>236,732</u>

The movement in the impairment allowance for trade receivables during the period is as follows:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Opening balance	210	67
Provision for the period	–	–
Reversal for amounts collected during the period	–	–
	<u>–</u>	<u>–</u>
Closing balance	<u>210</u>	<u>67</u>

7. SHARE CAPITAL

Authorised:

	Number of ordinary shares	Nominal value of ordinary shares US\$	Equivalent nominal value of ordinary shares RMB'000
Ordinary shares of US\$0.00001 each on 1 January 2021, 31 December 2021 and 30 June 2022	<u>5,000,000,000</u>	<u>50,000</u>	<u>307</u>

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares US\$	Equivalent nominal value of ordinary shares RMB'000
Ordinary shares of US\$0.00001 each on 1 January 2021, 31 December 2021 and 30 June 2022	<u>1,046,900,000</u>	<u>10,469</u>	<u>68</u>

8. TRADE PAYABLES

Trade payables mainly arose from the purchases of materials. The credit terms of trade payables granted by the suppliers are usually 30 to 90 days.

The ageing analysis of trade payables based on invoice dates is as follows:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Within 3 months	299,167	292,197
3 to 6 months	55	1,737
6 months to 1 year	<u>377</u>	<u>326</u>
Total	<u>299,599</u>	<u>294,260</u>

9. EXPENSES BY NATURE

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Changes in inventories of finished goods	(40,274)	33,353
Raw materials and consumables used	1,738,859	1,546,515
Employee benefit expenses	268,967	271,635
Transportation and related charges	105,333	95,571
Advertising and other marketing expenses	67,381	88,625
Depreciation of property, plant and equipment	55,931	37,506
Utilities	31,106	16,532
Warehouse expenses	25,185	29,584
Depreciation of right-of-use assets	21,276	15,303
Taxes and surcharges	19,126	21,804
Travel and entertainment expenses	13,125	16,449
Technical supporting fees, professional fees and other services fees	11,014	15,649
Maintenance costs	6,779	4,371
Expense relating to short-term leases not included in lease liabilities	6,626	8,747
Amortisation of intangible assets	3,343	3,011
Auditor's remuneration	993	1,045
Write off of obsolete inventories	753	4,208
Other expenses	28,557	20,933
Total	2,364,080	2,230,841

10. OTHER INCOME AND GAINS – NET

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Government grants (note)	33,336	74,526
Change in fair value of financial assets at fair value through profit or loss	7,430	43,331
Net foreign exchange gains/(losses)	15,589	(11,439)
Sales of scrap materials	7,083	6,281
Losses on disposal of property, plant and equipment and intangible assets	(2,626)	(227)
Donation	(57)	(114)
Others	4,158	3,457
Total	64,913	115,815

Note:

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

11. FINANCE INCOME – NET

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance income		
– Interest income	15,225	11,269
Finance costs		
– Interest on lease liabilities	(3,157)	(2,178)
Finance income – net	<u>12,068</u>	<u>9,091</u>

12. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax expense	115,198	139,888
Deferred income tax credit	(9,832)	(7,412)
Income tax expense	<u>105,366</u>	<u>132,476</u>

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2022 is approximately 26.3% (for the six months ended 30 June 2021: 25.2%).

13. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for each of the six months ended 30 June 2022 and 2021 is calculated by dividing the profit of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue, less the shares as held for the Group's restricted share unit scheme ("RSU Scheme") during the reporting period.

	Unaudited	
	Six months ended 30 June	
	2022	2021
Profit attributable to owners of the Company (RMB'000)	<u>263,144</u>	<u>348,836</u>
Weighted average number of ordinary shares in issue less shares held for the RSU Scheme (thousands)	<u>980,332</u>	<u>980,952</u>
Basic earnings per share (RMB cents)	<u>26.84</u>	<u>35.56</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

No diluted earnings per share has been presented since there was no potential dilutive ordinary share in issue during the six months ended 30 June 2022 and the six months ended 30 June 2021, respectively.

Diluted earnings per share is therefore same as the basic earnings per share.

14. DIVIDENDS

During the six months ended 30 June 2022, the total dividends as paid by the Company amounted to RMB224,563,000 or RMB21.9563 cents per share (for the six months ended 30 June 2021: RMB243,529,000 or RMB25.003 cents per share) which are net of the dividend of RMB15,374,000 (for the six months ended 30 June 2021: RMB16,643,000) attributable to the shares held for the RSU Scheme.

2022 INTERIM PERFORMANCE REVIEW

In the first half of 2022, affected by the recurrent outbreaks of COVID-19 pandemic and other factors, the economic growth has slowed down, and the consumer market has been subject to severe challenges. With the improvement of the domestic pandemic prevention and control as well as the effective effort in promoting consumption policy, the consumer market has gradually recovered, and the catering consumption has been showing a recovery trend.

In the first half of 2022, the major direction of the Group's business was to expand the channel penetration, continuously improve the product research and development mechanisms, implement the multi-brand strategy and persistently enhance the supply capabilities.

In terms of channel building, in order to achieve further expansion and penetration, we entered into lower-end markets by adjusting the prices of certain products, with a view to increasing the number of products at a single point of sale. We also gradually established an informatization management and intelligent identification system to facilitate the dynamical control of the terminal points of sale and product changes, so as to provide data reference for the determination and adjustment of subsequent channel building plans. At the same time, the Group continued to promote refined management of channels, differentiated management models for NKA (National Key-Account), EKA (E-commerce Key-Account) and circulation channels based on different ways of channel operation, as such it is anticipated that the efficiency of channel management could be further improved.

In terms of product research and development, the Group continued to implement the "project-based system for products", and established an "innovation committee" to coordinate the research and development team with top-down approaches and pooled efforts through gathering resources for research and development, so as to guide the research and development team to conduct in-depth studies on product categories and the industry, pay attention to long-term planning of product categories and raise standards for launching products, with an aim to increase the success rate of launching new products. At the same time, we strengthened consumer cultivation in multiple dimensions, focused on consumer usage scenarios, and resolved consumer pain points, so as to better improve consumer experience.

In the first half of 2022, the Group continued to implement the multi-brand strategy. In the existing brand matrix, we determined the use of “Magic Cook (筷手小厨)” and “Haidilao” brands based on product attributes, and at the same time made the corresponding promotion plans according to market feedbacks, which further enhanced consumers’ awareness and trust through brand promotion, so as to achieve the Group’s multi-brand strategic plan.

In terms of supply chain construction, the Group actively laid out the future production pattern and continued to make reserves for supply chain extension. Through the construction of factories with ancillary extension, the Group constantly improved the intelligent production level of factories, and continued to enhance the product quality and technology, with a view to further improving the overall management efficiency of the supply chain.

BUSINESS REVIEW

In the first half of 2022, the international environment has become more complex and challenging. The frequent outbreaks of domestic COVID-19 pandemic have a significant deteriorating impact on economic development. In the face of the extremely complex and difficult situation, various regions have effectively coordinated the pandemic prevention and control as well as the economic and social development, and have also made further adjustment to macroeconomic policy, so that the resurgence of the pandemic was effectively controlled, and the national economy stabilized and rebounded. In the first half of this year, the Group’s business of sale to related parties experienced negative growth as the catering industry was hit by frequent outbreaks of pandemic. At the same time, driven by the increasing demand arising from the effect of the pandemic, coupled with the Group’s continuous expansion in the lower-end markets and optimizing products, the Group’s business of sale to third parties showed a steady growth trend. For the six months ended 30 June 2022, the revenue of the Group was RMB2,688.5 million, representing a year-on-year increase of 2.2%, while the net profit of the Group was RMB296.0 million, representing a year-on-year decrease of 24.6%.

Sales Channels

The Group continued to be the major supplier of hot pot condiment products to Haidilao International Holding Ltd. and its subsidiaries (“**Haidilao Group**”), one of our related parties, while at the same time, we provided cooking condiment solutions to Chinese family cooking customers, catering service providers and companies in the food industry. As of 30 June 2022, the major products of the Group included hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, and the major channels of the Group for sales to third parties included distributors, e-commerce channels and catering customers. The Group’s sales to third-party distributors has covered totally 31 provincial regions in mainland China and Hong Kong, Macau and Taiwan as well as other 49 countries and regions overseas.

In the first half of 2022, we continued to take the development and expansion of channels for sales to third parties as the Group’s major sales strategy. Through the refined and differentiated models of management on channels and distributors, the overall operating efficiency of the Group has been improved to a certain extent. At the same time, the price of certain products has been adjusted in order to expand the channel coverage of lower-end markets, strengthen the sales of existing individual products with strong performance, increase the quantity of launched products in points of sale, and enhance the channel satisfaction. We insisted on taking the satisfaction of distributors and end customers as the starting point and conducted process indicator assessments to the first-tier sales personnel (“Partner(s)”) so as to improve sales performance of channels and ensure the relevant indicators were in order simultaneously.

In terms of development of e-commerce channels, the Group continued to adopt the strategy of enhancing interactive consumer experience, using the flagship store as the major interactive base for brands, enhancing consumer communication and consumers' participation in newly launched products, and providing more intimate shopping experience for consumers. In the first half of 2022, the Group continued to formulate targeted marketing plans for different festivals and promotional campaigns. As of 30 June 2022, the Group had nine flagship stores on e-commerce platforms such as Tmall.com, JD.com and Pinduoduo. For the six months ended 30 June 2022, the sales revenue of the Group from e-commerce channels was RMB159.4 million, representing a year-on-year decrease of 10.2%.

For sales to related parties (referring to the Haidilao Group and Shuhai (Beijing) Supply Chain Management Co., Ltd. (蜀海(北京)供應鏈管理有限責任公司) and its subsidiaries (“**Shuhai Supply Chain Group**”)), due to various impacts brought by frequent pandemic outbreaks as well as pandemic prevention and control policies, certain restaurants under the Haidilao Group were temporarily suspended from operation or suspended for dining-in, resulting in the Group's sales revenue from related parties being RMB659.5 million for the six months ended 30 June 2022, representing a year-on-year decrease of 26.2%.

Products

In the first half of 2022, the Group adhered to the “product research and development system” led by the “innovation committee”, coordinated the research and development team with top-down approaches and pooled efforts through gathering resources for research and development, continued to intensively explore the upgrading and innovation of products, customer needs and dimensions of usage, with a view to developing more products that meet market demand and with long-term life cycles, continuously enriching product matrix, optimizing product structure, and improving the market status of core products. Meanwhile, the Group continued to implement the multi-brand strategy, conducted brand promotion activities based on product offerings and market feedbacks, so as to enhance consumers' awareness and trust.

In the first half of 2022, the Group actively promoted crayfish seasoning, mellow tallow condiments and self-serving rice series, and promoted products through various marketing methods such as online communication and promotional activities with an aim to continuously improve product sales. At the same time, the Group cooperated with related parties to adjust the product formula of the base ingredients, and launched the upgraded version of tomato hot pot soup flavorings. We will continue to cooperate in the research and development of more new flavors based on the feedback from consumers.

For the six months ended 30 June 2022, the Group added a total of three hot pot condiment products, 11 Chinese-style compound condiment products and eight convenient ready-to-eat food products. As of 30 June 2022, the Group had a total of 64 hot pot condiment products, 54 Chinese-style compound condiment products and 38 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 six months ended 30 June					
	2022			2021		
	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	809,895	28,239	28.7	692,431	23,536	29.4
Related parties	613,031	31,715	19.3	816,956	39,770	20.5
Subtotal	<u>1,422,926</u>	<u>59,954</u>	<u>23.7</u>	<u>1,509,387</u>	<u>63,306</u>	<u>23.8</u>
Chinese-style compound condiments⁽²⁾						
Third parties	338,022	13,819	24.5	296,358	12,608	23.5
Related parties	4,833	227	21.3	25,612	1,049	24.4
Subtotal	<u>342,855</u>	<u>14,046</u>	<u>24.4</u>	<u>321,970</u>	<u>13,657</u>	<u>23.6</u>
Convenient ready-to-eat food products⁽³⁾						
Third parties	855,695	21,586	39.6	697,835	17,760	39.3
Related parties	41,572	1,047	39.7	50,673	1,170	43.3
Subtotal	<u>897,267</u>	<u>22,633</u>	<u>39.6</u>	<u>748,508</u>	<u>18,930</u>	<u>39.5</u>
Others⁽⁴⁾	<u>25,434</u>	<u>9,342</u>	<u>2.7</u>	<u>50,939</u>	<u>16,572</u>	<u>3.1</u>
Total	<u>2,688,482</u>	<u>105,975</u>	<u>25.4</u>	<u>2,630,804</u>	<u>112,465</u>	<u>23.4</u>

Notes:

- (1) Mainly including the Group's sales of products such as hot pot soup flavorings and hot pot dipping sauce.
- (2) Mainly including the Group's sales of products such as Chinese-style compound condiments and ready-to-eat sauce.
- (3) Mainly including the Group's sales of products such as self-serving small hot pots, self-serving rice, brewed silk noodles and instant rice.
- (4) Mainly including the Group's sales of products such as trading raw materials and packaging materials.

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

	For the six months ended 30 June			
	2022		2021	
	RMB'000	% of revenue	RMB'000	% of revenue
Revenue from hot pot condiments	1,422,926	52.9%	1,509,387	57.4%
Revenue from Chinese-style compound condiments	342,855	12.8%	321,970	12.2%
Revenue from convenient ready-to-eat food products	897,267	33.4%	748,508	28.5%
Other revenue	25,434	0.9%	50,939	1.9%
Total revenue	<u>2,688,482</u>	<u>100%</u>	<u>2,630,804</u>	<u>100%</u>

As at 30 June 2022, the Group's three major products were hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products. For the six months ended 30 June 2022, the Company added three new hot pot condiment products, 11 Chinese-style compound condiment products, eight convenient ready-to-eat food products in its portfolio. As at 30 June 2022, the Group had a total of 64 hot pot condiment products, 54 Chinese-style compound condiment products and 38 convenient ready-to-eat food products.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 2.2% from RMB2,630.8 million for the six months ended 30 June 2021 to RMB2,688.5 million for the corresponding period in 2022.

Revenue by product

	For the six months ended 30 June			
	2022		2021	
	Revenue (RMB'000)	% of revenue from hot pot condiments	Revenue (RMB'000)	% of revenue from hot pot condiments
Revenue from hot pot condiments products				
Revenue from third parties	809,895	56.9%	692,431	45.9%
Revenue from related parties	613,031	43.1%	816,956	54.1%
Total revenue from hot pot condiments products	<u>1,422,926</u>	<u>100%</u>	<u>1,509,387</u>	<u>100%</u>

Revenue from hot pot condiment products decreased by 5.7% from RMB1,509.4 million for the six months ended 30 June 2021 to RMB1,422.9 million for the corresponding period in 2022, accounting for 52.9% of the revenue for the six months ended 30 June 2022. Among that, revenue from sales of hot pot condiment products to related parties decreased by 25.0% as compared to the corresponding period in 2021, which was mainly attributable to the impact of pandemic on the related parties and the decrease in the number of stores of related parties. Revenue from sales of hot pot condiment products to third parties increased by 17.0% year-on-year. The increase was mainly due to an increase in sales volume driven by price adjustments of certain hot pot soup flavoring products.

	For the six months ended 30 June			
	2022		2021	
	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	338,022	98.6%	296,358	92.0%
Revenue from related parties	4,833	1.4%	25,612	8.0%
Total revenue from Chinese-style compound condiments	342,855	100%	321,970	100%

Revenue from Chinese-style compound condiments increased by 6.5% from RMB322.0 million for the six months ended 30 June 2021 to RMB342.9 million for the corresponding period of 2022, accounting for 12.8% of the revenue for the six months ended 30 June 2022. Among that, the revenue from sales of Chinese-style compound condiments to related parties decreased by 81.1%, and the revenue from sales of Chinese-style compound condiments to third parties increased by 14.1%, which was mainly due to the increase in revenue brought by the launching of new products.

	For the six months ended 30 June			
	2022		2021	
	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	855,695	95.4%	697,835	93.2%
Revenue from related parties	41,572	4.6%	50,673	6.8%
Total revenue from convenient ready-to-eat food products	897,267	100%	748,508	100%

The revenue from convenient ready-to-eat food products increased by 19.9% from RMB748.5 million for the six months ended 30 June 2021 to RMB897.3 million for the corresponding period of 2022, accounting for 33.4% of the revenue for the six months ended 30 June 2022. Among that, the revenue from sales of convenient ready-to-eat food products to related parties decreased by 18.0%, and the revenue from sales of convenient ready-to-eat food products to third parties increased by 22.6%, which was mainly attributable to an increase in revenue from self-serving rice and the increased demand of third parties driven by the impact of the pandemic.

Revenue by distribution network

	For the six months ended 30 June			
	2022		2021	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Related party customers				
Haidilao Group	657,949	24.5%	889,195	33.8%
Shuhai Supply Chain Group	1,532	0.1%	4,079	0.2%
Third party customers				
Distributors	1,858,120	69.1%	1,545,203	58.7%
E-commerce	159,392	5.9%	177,549	6.7%
Others	11,489	0.4%	14,778	0.6%
Total revenue	2,688,482	100%	2,630,804	100%

The sales revenue of the Group from sales to related parties, mainly include Haidilao Group and Shuhai Supply Chain Group, for the six months ended 30 June 2022 was RMB659.5 million, representing a year-on-year decrease of 26.2%.

For the six months ended 30 June 2022, the sales revenue of the Group from sales to distributors amounted to RMB1,858.1 million, representing a year-on-year increase of 20.3%, while the sales revenue from e-commerce channels amounted to RMB159.4 million, representing a year-on-year decrease of 10.2%. The latter was due to the change of the flagship store's name, causing inconvenience in retrieval by consumers.

Revenue by geographic region

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

	For the six months ended 30 June			
	2022		2021	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
Northern China ⁽⁵⁾	1,108,883	41.2%	1,122,834	42.7%
Southern China ⁽⁶⁾	1,424,313	53.0%	1,382,596	52.5%
Other markets	155,286	5.8%	125,374	4.8%
Total	2,688,482	100%	2,630,804	100%

Notes:

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

Cost of Sales

The Group's cost of sales, including raw materials, employee benefit expenses, depreciation and amortization and utilities, increased by 8.7% from RMB1,769.8 million for the six months ended 30 June 2021 to RMB1,923.4 million for the corresponding period of 2022. The increase in cost of sales was mainly due to price increases in certain raw materials.

Gross Profit and Gross Profit Margin

	For the six months ended 30 June			
	2022		2021	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Hot pot condiments	466,156	32.8%	552,407	36.6%
Third parties	388,046	47.9%	356,170	51.4%
Related parties	78,110	12.7%	196,237	24.0%
Chinese-style compound condiments	108,863	31.8%	108,578	33.7%
Third parties	108,090	32.0%	103,180	34.8%
Related parties	773	16.0%	5,398	21.1%
Convenient ready-to-eat food products	189,672	21.1%	199,896	26.7%
Third parties	181,830	21.2%	184,580	26.5%
Related parties	7,842	18.9%	15,316	30.2%
Others	416	1.6%	92	0.2%
Total	765,107	28.5%	860,973	32.7%

The Group's gross profit decreased by 11.1% from RMB861.0 million for the six months ended 30 June 2021 to RMB765.1 million for the corresponding period of 2022, and the gross profit margin decreased from 32.7% for the six months ended 30 June 2021 to 28.5% for the corresponding period of 2022. The decline in gross profit margin was mainly due to the increasing raw materials prices and the increase in sales proportion of products with low gross profit.

Distribution Expenses

The Group's distribution expenses decreased by 3.6% from RMB326.3 million for the six months ended 30 June 2021 to RMB314.5 million for the corresponding period of 2022. The Group's distribution expenses as a percentage of the Group's revenue decreased from 12.4% for the six months ended 30 June 2021 to 11.7% for the corresponding period of 2022. The change in distribution expenses was mainly due to a reduction in advertising expenses.

Administrative Expenses

The Group's administrative expenses decreased by 6.3% from RMB134.7 million for the six months ended 30 June 2021 to RMB126.2 million for the corresponding period of 2022. The Group's administrative expenses as a percentage of the Group's revenue decreased from 5.1% for the six months ended 30 June 2021 to 4.7% for the corresponding period of 2022. The change in administrative expenses was mainly attributable to lower expenses incurred for relevant personnel as a result of active expense control by the Group's management.

Other Income and Gains – net

The Group's net amount of other income and gains decreased by 44.0% from RMB115.8 million for the six months ended 30 June 2021 to RMB64.9 million for the corresponding period of 2022, which was mainly due to the decrease in financial subsidies received from the government and gains on changes in fair values of financial assets.

Finance Income – net

The Group's net amount of finance income increased by 32.7% from RMB9.1 million for the six months ended 30 June 2021 to RMB12.1 million for the corresponding period of 2022, which was mainly due to higher interest income on bank deposits.

Profit before Tax

As a result of the foregoing, the Group's profit before tax decreased by 23.5% from RMB524.9 million for the six months ended 30 June 2021 to RMB401.4 million for the corresponding period of 2022.

Income Tax Expense

The Group's income tax expense decreased by 20.5% from RMB132.5 million for the six months ended 30 June 2021 to RMB105.4 million for the corresponding period of 2022. The effective tax rate increased from 25.2% for the six months ended 30 June 2021 to 26.3% for the corresponding period of 2022 mainly due to that the deferred income tax assets for one of the Group's factories in Chengdu were not recognized due to its planned closure and deregistration in the second half of 2022.

Net Profit for the Period

As a result of the foregoing, the Group's net profit decreased by 24.6% from RMB392.4 million for the six months ended 30 June 2021 to RMB296.0 million for the corresponding period of 2022. Basic earnings per share decreased from RMB35.56 cents for the six months ended 30 June 2021 to RMB26.84 cents for the corresponding period of 2022 and net profit margin decreased from 14.9% for the six months ended 30 June 2021 to 11.0% for the corresponding period of 2022, which were due to the decline in gross profit margin caused by higher raw material costs and changes of the Group's product structure.

Capital Liquidity and Financial Resources

For the six months ended 30 June 2022, the Group's operations were mainly funded by the cash generated from its operation. The Group intended to utilize internal resources to provide funds for its business operations and expansion through organic growth and sustainable development.

Cash and Cash Equivalents

As at 30 June 2022, the Group's cash and cash equivalents were mainly consisted of Renminbi and US dollars. Cash and cash equivalents amounted to approximately RMB1,586.1 million (31 December 2021: RMB1,573.6 million).

Asset-Liability Ratio

As at 30 June 2022, the Group's asset-liability ratio⁽⁷⁾ was 18.2% (31 December 2021: 17.9%).

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, work-in-progress and finished goods. As at 30 June 2022, inventories amounted to approximately RMB404.3 million (31 December 2021: RMB395.3 million). The turnover days of inventories increased from 35.9 days for the year ended 31 December 2021 to 37.4 days for the six months ended 30 June 2022. The increase in turnover days of inventories was mainly due to an increase in stock of certain products in June resulting from the resurgence of the COVID-19 pandemic.

Trade Receivables

Trade receivables represent the amounts due from customers in respect of sales of goods in the ordinary course of business. As at 30 June 2022, trade receivables amounted to approximately RMB132.5 million (31 December 2021: RMB236.5 million). The change was mainly due to the decline in revenue from related parties. The turnover days of trade receivables decreased from 12.9 days for the year ended 31 December 2021 to 12.4 days for the six months ended 30 June 2022.

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 RMB299.6 million as at 30 June 2022 (31 December 2021: RMB294.3 million). The turnover days of trade payables increased from 25.7 days for the year ended 31 December 2021 to 27.8 days for the six months ended 30 June 2022.

Contingent Liabilities

As at 30 June 2022, the Company did not have any contingent liabilities.

Charge of Assets

As at 30 June 2022, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As at 30 June 2022, the Company did not have any bank borrowings.

Debt-to-Equity Ratio

As at 30 June 2022, the debt-to-equity ratio⁽⁸⁾ of the Company was 3.2%.

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 United States dollars and Singapore 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 30 June 2022, the Group had a total of 2,555 employees (including temporary workers), comprising 2,006 employees in production, 500 employees in marketing and 49 employees in administration and management functions.

For the six months ended 30 June 2022, the Group's total staff costs amounted to RMB269.0 million, including salaries, wages, allowances and benefits. The Group continued to optimize the incentive-based system in line with business development needs and implemented remuneration policies with competitiveness.

Material Acquisitions and Disposals

For the six months ended 30 June 2022, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PROSPECTS

Industry and Business Outlook

In the first half of 2022, affected by unexpected factors such as the complex and challenging international environment and the impact of the domestic pandemic, the economic development faced a number of difficulties and challenges. With implementing of a series of stabilizing policies and measures, the national economy is expected to gradually recover and maintain stable growth in the second half of the year.

In the second half of 2022, the Group will continue to focus on product research and development, brand promotion, channel building and supply chain extension.

In terms of product research and development, the Group will continue to take advantage of the “project-based system for products” led by the “innovation committee”, and continue to leverage the Group’s research and development and market exploration capabilities to launch innovative products that meet the needs and preferences of consumers.

In terms of brand strategy, the Group will enhance consumers’ trust in the trademark of “Magic Cook (筷手小厨)” through the multi-brand promotion strategy, break the existing brand boundaries, enrich product forms and tastes, continuously enhance brand recognition and strengthen the Group’s multi-brand strategy.

In terms of channel building, the Group will adhere to the segmentation and penetration of channels. Through the establishment of information management system, an accurate and efficient management of channels will be achieved while optimizing the incentive system for internal sales personnel and external distributors to improve single point of sales, and continuously enhance the Group’s market share and industry position.

In terms of supply chain formation, the Group will continue to establish domestic and foreign factories to improve the supply chain extension system, optimize the division of supply technology categories, improve the level of automation and production efficiency in production lines, optimize the costs on supply-side, shorten the length of supply chain, and form industrial clusters, while at the same time rationally conduct production capacity planning to reduce product costs and further improve the overall supply chain efficiency. At the same time, the Group will gradually acquire customers in catering and across industries to enrich our product and service offerings.

Material Investments and Prospects

In order to further supplement and optimize production capacity, the Group mainly adopts the following measures:

Firstly, the north workshop of Bazhou Phase I project in Hebei Province, with a total production capacity of 70,000 tonnes. The Bazhou Phase II project commenced construction in June 2022 and is expected to start production in March 2023, with an annual production capacity of 82,000 tonnes of convenient ready-to-eat food products. With the gradual completion of the Bazhou factory, the Group will be able to better control and manage logistics costs and production capacity pressure during peak seasons.

Secondly, the main plant of the Ma'anshan Phase II new factory project has been completed and is undergoing internal decoration and equipment installation. The project is expected to empower the Group with 200,000 tonnes of production capacity upon full completion, of which the planned production capacity of the first phase is 60,000 tonnes, which is expected to start production at the end of September 2022. Ma'anshan Phase II project will be equipped with condiment production equipment and quality testing equipment at advanced technological standards both domestically and overseas to improve the overall production line efficiency of the Company.

Thirdly, the construction of the Luohe production base officially commenced in March 2020, with a currently total annual designed production capacity of 300,000 tonnes. The annual production capacity of the first phase is planned to be 150,000 tonnes, of which workshop No. 1 has been put into operation in September 2021 and workshop No. 2 has successively commenced operation at the end of August 2022. The Luohe production base is expected to gradually increase its production capacity according to actual demand at a later stage.

Fourthly, the first phase of Jianyang production base will mainly focus on compound condiment products and it is intended to commence production at the end of 2022, with a planned annual production capacity of 25,000 tonnes. The second phase is planned to have assembly lines for convenient ready-to-eat food products with an annual planned production capacity of 22,000 tonnes, of which the time for commencing production will depend on actual demand.

Fifthly, the Group has purchased a land parcel located in Rojana Industrial Park of Ayutthaya in Thailand in May 2020 for the construction of a Thai factory. The first phase of the Thai factory has a designed production capacity of 20,000 tonnes, which has commenced construction since the end of February 2021 and is expected to commence production in November 2022. The second phase will have a designed production capacity of 20,000 tonnes and is expected to commence production in 2025.

Future Plans for Material Investments

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

OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2022 to the shareholders of the Company (the “**Shareholders**”).

Event after the end of the Reporting Period

There has been no material event after the end of the Reporting Period which requires disclosure in this announcement.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2022.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2022.

The Company’s employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company during the six months ended 30 June 2022.

Compliance with the Corporate Governance Code

The Company has adopted and applied the principles and code provisions as set out in the part 2 of the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Listing Rules. During the six months ended 30 June 2022, the Company has complied with the code provisions in the Corporate Governance Code.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) has three members comprising all independent non-executive Directors, being Mr. Yau Ka Chi (chairman), 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 Group and has discussed matters in relation to internal controls and financial reporting with the management, including the review of the unaudited condensed consolidated interim financial results of the Group for the six months ended 30 June 2022. The Audit Committee considers that the interim financial results for the six months ended 30 June 2022 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Results Announcement and Interim Report

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

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

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

Hong Kong
30 August 2022

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