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Zhou Hei Ya International Holdings Company Limited
周黑鴨國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1458)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		Period-Over-Period Change
	2017	2016	
	RMB' 000	RMB' 000	%
Revenue	**1,618,306**	1,389,135	16.5
Gross profit	**985,920**	871,031	13.2
Profit before tax	**526,795**	510,169	3.3
Profit for the period attributable to owners of the Company	**401,034**	380,739	5.3
Adjusted net profit [1]	**409,059**	384,087	6.5
Basic and diluted earnings per share (RMB)	**0.17**	0.20	(15.0)

[1] Adjusted net profit is calculated by deducting listing expenses and/or loss on disposal of property, plant and equipment, representing the disposal of equipment and plant during the process of upgrading the Group's existing Wuhan processing facility in the relevant period. Adjusted net profit is an unaudited non-GAAP item. To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Group has presented this non-GAAP item as an additional measure to evaluate the financial performance of the Group by considering the impact of certain items that the Group believes are frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry within which the Group operates and by eliminating the impact of certain unusual and/or non-recurring items that the Group does not consider indicative of the performance of the Group's business.

OPERATIONAL HIGHLIGHTS

The table below sets forth certain key operational information of the Group's self-operated retail store network for the periods indicated.

	Six Months Ended June 30,	
	2017	**2016**
Number of self-operated retail stores	**892**	716
Total sales volume (tons)	**19,461**	16,078
Average spending per purchase order (RMB)	**62.13**	58.95

The following table sets forth the revenue contribution in terms of the Group's main product categories for the periods indicated.

	Six Months Ended June 30,			
	2017		**2016**	
	RMB'000	**%**	RMB'000	%
Ducks and duck part products	**1,404,075**	**86.8**	1,231,851	88.7
Other products [(1)]	**214,231**	**13.2**	157,284	11.3
Total	**1,618,306**	**100.0**	1,389,135	100.0

(1) Other products mainly include braised red meat, braised vegetable products and other braised poultry.

The board of directors (the "**Board**") of Zhou Hei Ya International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended June 30, 2017 (the "**Interim Results**"). The Interim Results have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the Interim Results have also been reviewed by the audit committee of the Company (the "**Audit Committee**").

BUSINESS OVERVIEW AND OUTLOOK

Market Overview

In the first half of 2017, China's economy continued to grow and general consumer confidence has been found to reach a highest level in recent years. Consumer spending increased, driven by more affluent population, growing young generation and the continuing deepened combination of online and offline shopping, which has been changing the consumer demands, lifestyle as well as consumption habits. Moreover, established online marketplaces and local ordering and delivery service platforms, supported by logistics and online payment infrastructures, have increased penetration of online shopping nationwide. As a result, retail companies, including casual food companies like us, are urged to constantly innovate their product offerings and improve quality, and to implement product innovation and marketing strategies to timely cater to such changing consumer demands and consumption habits.

Despite the continuing intensified competition in the casual braised food industry in China as well as the pressure of increasing production costs, the Group has achieved stable growth in revenue in the first half of 2017, comparing with the corresponding period in 2016.

Overall Business and Financial Performance

Store Network Expansion

In the first half of 2017, the Group continued to carry out its store network expansion plans. The Group newly opened 144 self-operated retail stores and closed 30 stores during the six-month period. As a result, as of June 30, 2017, the total number of the Group's self-operated retail stores reached 892, covering 47 cities in 13 provinces and municipalities in China.

Geographically, central China area remained the major regional market of the Group while its revenue contribution as a percentage of total revenue continued to decrease, and the remaining regions, especially the eastern China area, demonstrated healthy growth with increasing aggregate revenue contribution, mainly due to the expansion of retail store network.

The Group continued to strategically locate its self-operated retail stores in the transport infrastructure, such as airports, railway stations and subway stations, or the ancillary facilities surrounding the transport infrastructure. As of June 30, 2017, among all self-operated retail stores the Group operated, 263 were transport hub stores and revenue derived from such hub stores accounted for approximately 39.8% of total revenue for the six months ended June 30, 2017.

The table below sets forth a breakdown of the number of self-operated retail stores by geographic location for the periods indicated.

Number of Stores

	Six Months Ended June 30,			
	2017		2016	
	#	%	#	%
Central China (1)	**400**	**44.9**	361	50.4
Southern China (2)	**177**	**19.8**	157	21.9
Eastern China (3)	**156**	**17.5**	79	11.0
Northern China (4)	**108**	**12.1**	90	12.6
Southwestern China (5)	**51**	**5.7**	29	4.1
Total	**892**	**100.0**	716	100.0

Revenue Derived from Self-operated Retail Stores

	Six Months Ended June 30,			
	2017		**2016**	
	RMB'000	**%**	**RMB'000**	**%**
Central China [(1)]	**874,010**	**64.1**	844,134	69.3
Southern China [(2)]	**179,204**	**13.1**	167,801	13.8
Eastern China [(3)]	**159,891**	**11.7**	101,042	8.3
Northern China [(4)]	**128,801**	**9.4**	93,052	7.6
Southwestern China [(5)]	**23,890**	**1.7**	11,370	1.0
Total	**1,365,796**	**100.0**	1,217,399	100.0

(1) Comprises Hubei Province, Hunan Province, Henan Province and Jiangxi Province.

(2) Comprises Guangdong Province.

(3) Comprises Shanghai, Jiangsu Province and Zhejiang Province.

(4) Comprises Beijing, Tianjin and Hebei Province.

(5) Comprises Chongqing and Sichuan Province.

Product Innovation

The Group has been continuously developing new products to enhance its product portfolio, particularly focusing on innovative and trending products which are expected to appeal to young customers. Among others, in May 2017, the Group introduced crayfish, a very popular dish throughout China. Zhou Hei Ya Crayfish uses crayfish from areas with unique high quality water resource in China.

In addition, the Group launched braised beef in June 2017, which is currently exclusively offered through the Group's online sales channels. Carefully selected high quality beef shank from Inner Mongolia provides chewy texture and satisfying mouthfeel.

To ensure that newly launched crayfish product could meet the high quality and safety standards on which the Group has constantly been focusing, the Group deploys advanced ultra-sound cleansing technology to clean the crayfish thoroughly. Moreover, the relevant production facility is built in accordance to the "Architectural and Technical Code for Cleanroom in Food Industry" in China, being able to reach the cleanroom classification standards of Class 100,000.

The Group has established strategic business relationships with qualified crayfish and beef suppliers to ensure the supply of high quality crayfish and beef raw materials.

Production Capacity

The Group continued to optimize its production arrangements to increase its production capacity and efficiency. The new Phase II Wuhan facility has commenced commercial operation since late 2016. The Group was also in the process of upgrading the existing Wuhan processing facility to improve the production lines. Such improvements are expected to be completed in the first half of 2018.

Moreover, in June 2017, the Group, through one of its wholly-owned subsidiaries, entered into an equity transfer agreement with Zhou Hei Ya Foods Joint Stock Limited Company, or ZHY Foods, a connected person of the Company. Pursuant to the equity transfer agreement, the Group acquired the 100% equity interest in Hebei Zhou Hei Ya Foods Industrial Park Co., Ltd., or Hebei Industrial Park, from ZHY Foods. Further details of this transaction had been published on an announcement dated June 19, 2017 made by the Company. Hebei Industrial Park has production facilities with an aggregate gross floor area of approximately 52,400 sq.m. and the facility construction is expected to be completed by the end of 2017.

The Group expects the production facilities located in Hebei province to enhance its overall production capacity and enter to the increasing demands in northern China region. It also believes that the additional production facilities acquired through this acquisition, together with the Group's current production facilities, will effectively extend and enhance the service radius of the Group's cold chain logistics and increase the supply of its products at its stores which require low-temperature preservation.

Marketing and Branding Campaigns

The Group continued to increase its expenses in marketing and promotional activities in the first half of 2017. Selling and distribution expenses amounted to RMB428.2 million in the six months ended June 30, 2017, representing an increase of 37.3% from RMB311.9 million in the corresponding period in 2016. In particular, the Group focused on membership promotion and endeavored to consolidate customer resources from various sales channels and further streamline its online and offline membership program data.

In addition to the product launch event for Zhou Hei Ya Crayfish in May 2017, the Group also took the opportunity to organize meetings with investors and press media to update the Group's business and future develop plans, which reaffirmed the confidence of the investors and general public in the Group.

Additionally, to take advantage of the Internet economy, the Group continued to enhance the development of its online marketing strategies. Leveraging its own social media channels, the Group enhanced customer loyalty by active interaction with the customers.

E-Commerce and Local Food Ordering and Delivery Service

The Group continued to implement its e-commerce strategies and its online sales, mainly through cooperation with third party online marketplaces. The Group has established strong presence on 11 domestic major online marketplaces, including one newly operated storefront on Jumei.com in the first half of 2017.

Local food ordering and delivery service has been booming for the past several years. To capture the emerging potentials, the Group started to explore cooperative opportunities with various local food ordering and delivery service platforms since 2016, which have developed significantly and are currently available in 38 cities. It also elaborated with Ele.me, a leading online food delivery platform in China, to launch specially designed promotional event, which has successfully increased the online ordering and delivery sales and improved the Group's brand recognition among the online customers.

On the other hand, the Group has endeavored to further streamline its online and offline customer resources. It commenced to issue e-membership cards via the WeChat which can be synced with existing offline membership information. E-membership program not only provides traditional purchasing functions but also enables the members to enjoy additional privileged services online, such as e-coupons and push notifications. The Group intends to continue to offer e-membership programs through other online channels in the second half of 2017.

Supported by various online payment methods available on the online marketplaces as well as on WeChat, e-membership offers swift and convenient payment experience for the Group's customers. As such, revenue derived from online channels increased by 51.2% from RMB113.7 million in the six months ended June 30, 2016 to RMB171.9 million in the corresponding period in 2017.

Moreover, with the e-membership program and the customer relationship management system, which is currently under development and upgrades, the Group is able to efficiently centralize and update membership information, and realize customer data analysis.

The following table sets forth the revenue contribution by the Group's sales channels for the periods indicated.

	Six Months Ended June 30,			
	2017		**2016**	
	RMB'000	**%**	**RMB'000**	**%**
Self-operated retail stores [(1)]	**1,365,796**	**84.4**	1,217,399	87.6
Online channels	**171,896**	**10.6**	113,679	8.2
Distributors	**75,936**	**4.7**	53,075	3.8
Others [(2)]	**4,678**	**0.3**	4,982	0.4
Total	**1,618,306**	**100.0**	1,389,135	100.0

(1) Includes revenue derived from online ordering and delivery services, products so sold are typically picked up at the designated retail stores. Revenue derived from online ordering and delivery services accounted for approximately 1.1% and 7.5% of the revenue from self-operated retail stores in the six months ended June 30, 2016 and 2017, respectively.

(2) Primarily include revenue generated from vending machines and other direct sales through subsidiaries.

Industry and Business Outlook for the Second Half of 2017

China's braised food industry has been in dire need of transition and consumption upgrades, and the customer demands remain underserved. Overall economic growth, increasing disposable income, and population growth, in particular, the growth of young generation with strong purchasing power, have presented, and will continue to contribute, the strong growth in the casual braised food industry. In addition, emerging sales channels and new marketing initiatives, such as online marketplaces and local food ordering and delivery service platforms, also generate significant potentials and possibilities.

The Group expects to continue to take advantage of its current leading market position and to further strengthen and advance its leadership and market share in China. In the second half of 2017, it intends to continue to:

- Further penetrate existing markets and strategically expand into new regions;
- Further strengthen the brand equity and promote unique culture and lifestyle image;
- Focus on attracting young customers and developing e-commerce business;
- Enhance human resources and continue to attract and retain talents; and
- Improve information infrastructure and strengthen big-data analytics capabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's interim condensed consolidated statements of profits or loss and other comprehensive income in absolute amounts and as percentage of the Group's total revenue for the periods indicated, together with the change from the six months ended June 30, 2016 to the six months ended June 30, 2017 (expressed in percentages).

	Six Months Ended June 30,				Period-Over-Period Change
	2017		2016		
	RMB'000 (unaudited)	%	RMB'000 (audited)	%	%
Revenue	**1,618,306**	**100.0**	**1,389,135**	**100.0**	**16.5**
Cost of sales	**(632,386)**	**(39.1)**	(518,104)	(37.3)	22.1
Gross profit	**985,920**	**60.9**	**871,031**	**62.7**	**13.2**
Other income and gains, net	**39,780**	**2.5**	13,008	0.9	205.8
Selling and distribution expenses	**(428,180)**	**(26.5)**	(311,937)	(22.4)	37.3
Administrative expenses	**(70,725)**	**(4.3)**	(61,933)	(4.5)	14.2
Profit before tax	**526,795**	**32.6**	**510,169**	**36.7**	**3.3**
Income tax expense	**(125,761)**	**(7.8)**	(129,430)	(9.3)	(2.8)
Profit for the period	**401,034**	**24.8**	**380,739**	**27.4**	**5.3**
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Available-for-sale investments:					
Changes in fair value, net of tax	**726**	**0.0**	1,537	0.1	(52.8)
Reclassification adjustments for gains and losses included in the profit or loss - gains on disposal, net of tax	**(726)**	**(0.0)**	(1,537)	(0.1)	(52.8)
	—	**—**	—	—	—
Exchange differences on translation of foreign operations	**(71,391)**	**(4.4)**	1,360	0.1	(5,349.3)
Other comprehensive income for the period, net of tax	**(71,391)**	**(4.4)**	1,360	0.1	(5,349.3)
Total comprehensive income for the period	**329,643**	**20.4**	**382,099**	**27.5**	**(13.7)**
Basic and diluted earnings per share (RMB)	**0.17**	**N.A.**	0.20	N.A.	(15.0)

Revenue

The Group's total revenue increased by approximately 16.5% from RMB1,389.1 million for the six months ended June 30, 2016 to RMB1,618.3 million for the six months ended June 30, 2017, which was primarily due to the increased sales volume as a result of the increase in the total number of the self-operated retail stores from 716 as of June 30, 2016 to 892 as of June 30, 2017. Revenue derived from self-operated retail stores increased in the six months ended June 30, 2017 also because the significant development of cooperation with local food ordering and delivery service platforms. Revenue contributed by the Group's self-operated retail stores increased by approximately 12.2% from RMB1,217.4 million for the six months ended June 30, 2016 to RMB1,365.8 million for the six months ended June 30, 2017.

Moreover, the Group's e-commerce continued to grow and revenue derived from the online channels increased by approximately 51.2% from RMB113.7 million for the six months ended June 30, 2016 to RMB171.9 million for the six months ended June 30, 2017, primarily due to the Group's continued e-commerce marketing strategies to enhance its brand awareness online.

Geographically, central China area remained the major regional market of the Group in the six months ended June 30, 2017, which contributed approximately 64.1% of total revenue for the six months ended June 30, 2017. Nevertheless, other regional markets had generally experienced growth in terms of the number of self-operated retail stores and revenue contributed. In particular, eastern area recorded a 58.2% increase in revenue, mainly as a result of the rapid expansion of the self-operated retail store network in these regions.

Cost of Sales

Cost of sales increased by approximately 22.1% from RMB518.1 million for the six months ended June 30, 2016 to RMB632.4 million for the six months ended June 30, 2017, primarily due to the overall growth in total sales. The increase was also attributable to the increases in packaging material costs, the costs of certain spices and labor costs, partially offset by a decrease in the cost of certain key raw materials.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit increase by 13.2% from RMB871.0 million for the six months ended June 30, 2016 to RMB985.9 million for the six months ended June 30, 2017.

Due to the overall increase in cost of sales and the decrease in the average selling price mainly resulting from the further enhanced promotional and marketing incentives, gross profit margin decreased from 62.7% in the six months ended June 30, 2016 to 60.9% in the six months ended June 30, 2017.

Other Income and Gains, Net

The Group's other income and gains, net increased by approximately 205.8% from RMB13.0 million for the six months ended June 30, 2016 to RMB39.8 million for the six months ended June 30, 2017. The increase was primarily due to the increases in interest income from bank deposits and structured deposits. The increase in other income and gains, net was partially offset by a decrease in investment income from available-for-sale investments. The Group had established and strictly followed the capital and investment policies to monitor and control the risks relating to its investment activities.

In the six months ended June 30, 2017, the Group recorded a loss on disposal of property, plant and equipment of approximately RMB10.5 million mainly in connection with the disposal of equipment and plant during the process of upgrading its existing Wuhan processing facility.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately 37.3% from RMB311.9 million for the six months ended June 30, 2016 to RMB428.2 million for the six months ended June 30, 2017. The increase was primarily due to the growing advertising and promotion expense as the Group continued to enhance its offline and online marketing campaigns, especially the growing business in connection with the online marketplaces and local food ordering and delivery service platforms. In addition, the increase was also due to the increase in lease expenses and salary and welfare for the selling and marketing staff, each a result of the expansion of retail store network expansion.

Administrative Expenses

The Group's administrative expenses increased by approximately 14.2% from RMB61.9 million for the six months ended June 30, 2016 to RMB70.7 million for the six months ended June 30, 2017, primarily due to the increase in salary and welfare for the Group's general and administrative personal which was in line with its business growth.

Profit Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB526.8 million for the six months ended June 30, 2017, increased by approximately 3.3% from RMB510.2 million for the six months ended June 30, 2016.

Income Tax Expense

Income tax expense decreased by approximately 2.8% from RMB129.4 million for the six months ended June 30, 2016 to RMB125.8 million for the six months ended June 30, 2017. Although profit before tax increased in the six months ended June 30, 2017 compared to the corresponding period in 2016, the total income tax expense slightly decreased, mainly due to the different tax jurisdictions the income was subject to.

Profit for the Period

As a result of the foregoing, the Group's net profit increased by 5.3% from RMB380.7 million for the six months ended June 30, 2016 to RMB401.0 million for the six months ended June 30, 2017. Net profit margin was 27.4% in the six months ended June 30, 2016 and 24.8% in the six months ended June 30, 2017, respectively.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations changed from other comprehensive income of RMB1.4 million for the six months ended June 30, 2016 to other comprehensive loss of RMB71.4 million for the six months ended June 30, 2017, primarily represented the foreign exchange loss on term deposit denominated in Hong Kong dollars, being the proceeds received from the initial public offering (the "**IPO**").

Total Comprehensive Income for the Period

As a result of the foregoing, the Group's total comprehensive income for the six months ended June 30, 2017 decreased by 13.7% to RMB329.6 million from RMB382.1 million for the six months ended June 30, 2016.

Non-GAAP Measure

To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Group uses adjusted net profit as an additional financial measure to evaluate the Group's financial performance without taking into account certain unusual and/or non-recurring items. Adjusted net profit is calculated by deducting listing expenses and/or loss on disposal of property, plant and equipment in the relevant period. The table below sets forth the reconciliation of profit for the period to adjusted net profit.

	Six Months Ended June 30,	
	2017	**2016**
	RMB'000	**RMB'000**
Profit for the period	**401,034**	380,739
Listing expenses	**—**	3,348
Loss on disposal of property, plant and equipment in connection with existing Wuhan facility (1)	**10,700**	—
Tax impact on item listed above (1)	**(2,675)**	—
Adjusted net profit (2)	**409,059**	384,087

(1) Representing the disposal of equipment and plant during the process of upgrading the Group's existing Wuhan processing facility.

(2) Adjusted net profit is an unaudited non-GAAP item. The Group uses such unaudited non-GAAP adjusted net profit as an additional financial measure to supplement the consolidated financial statements which are presented in accordance with HKFRS and to evaluate the financial performance of the Group by eliminating the impact of certain unusual and/or non-recurring items that the Group does not consider indicative of the performance of the business of the Group. Other companies in the industry in which the Group operates may calculate this non-GAAP item differently than the Group does. This non-GAAP item is not a measure of operating performance or liquidity under HKFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with HKFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results as reported under HKFRS. The Group's presentation of this non-GAAP item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

Liquidity and Capital Resources

In the six months ended June 30, 2017, the Group financed its operations primarily through cash generated from its business operations and the net proceeds received from its IPO. The Group intends to finance its expansion and business development by internal resources and through organic and sustainable growth, as well as to use the net proceeds received from its IPO.

Capital Structure

As of June 30, 2017, the Group had net assets of approximately RMB3,718.4 million, as compared to RMB3,595.6 million as of December 31, 2016, comprising current assets of RMB3,285.9 million, non-current assets of approximately RMB895.5 million, current liability of RMB441.2 million and non-current liability of approximately RMB21.8 million. In the six months ended June 30, 2017 up to the date of this announcement, the Group did not rely on any debt financing nor any bank borrowing.

Cash and Bank

As compared with RMB2,461.3 million as of December 31, 2016, the Group had cash and bank of approximately RMB2,149.6 million as of June 30, 2017, which consisted of unrestricted cash and bank balances of approximately RMB93.4 million and term deposits with maturity over three months of approximately RMB2,056.2 million.

Financial Risks

The Group is not subject to significant credit risk and liquidity risk. The Group had cash at banks denominated in foreign currencies, which exposed the Group to foreign exchange risk. The Group does not use any derivative contracts to hedge against its exposure to foreign exchange risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and will take prudent measures to minimize the currency translation risk.

Use of Proceeds from the Initial Public Offering

Net proceeds from the IPO (including the exercise of the over-allotment options on November 30, 2016), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering which the Company received amounted to approximately HK$2,792.3 million, comprising HK$2,428.1 million raised from the Global Offering and HK$364.2 million from the issue of shares pursuant to the exercise of the over-allotment options, respectively.

During the six months ended June 30, 2017, the Group had utilized approximately RMB320.3 million of the proceed from the IPO, comprising approximately RMB286.3 million in the construction and improvement of processing facilities and RMB19.0 million in brand image campaigns, including the e-commerce marketing campaigns, RMB15.0 million in the development of retail store network.

As of June 30, 2017, net proceeds not utilized had been deposited into short-term deposits and terms deposits with maturity over three months.

Indebtedness

As of June 30, 2017, the Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection thereof.

As such, as of June 30, 2017, the Group had no interest-bearing bank borrowings and thus no gearing ratio (which is calculated as interest-bearing bank borrowings less cash and cash equivalent divided by the total equity) was calculated.

Cash Flows

For the six months ended June 30, 2017, net cash generated from operating activities decreased to approximately RMB326.2 million from RMB438.6 million for the six months ended June 30, 2016, which was mainly attributed to profit before tax of RMB526.8 million, adjusted for certain non-cash items such as depreciation and amortization of RMB28.8 million. Additional factors that affected net cash generated from operating activities included (i) income tax paid of RMB149.7 million, (ii) a decrease in other payables and accruals of RMB26.3 million, (iii) an increase in inventories of RMB21.5 million, (iv) interest income from bank deposits of RMB21.2 million, (v) an increase in rental deposits of RMB15.3 million, and (vi) an increase in trade payables of RMB16.8 million mainly due to increased payables to raw material suppliers.

For the six months ended June 30, 2017, net cash used in investing activities decreased to approximately RMB149.9 million from RMB232.8 million for the six months ended June 30, 2016, which was mainly attributed to purchases of structured deposits and available-for-sale investments in the aggregate amount of RMB1,426.8 million, purchases of items of property, plant and equipment of RMB128.8 million in connection with the construction and improvement of the Group's processing facilities, the acquisition of subsidiaries, net of cash in the amount of RMB13.9 million and the repayment of RMB149.8 million due to a related party in connection with the acquisition of Hebei Industrial Park, partially offset by proceeds from disposal of available-for-sale investments and structured deposits of RMB1,360.8 million.

For the six months ended June 30, 2017, net cash used in financing activities increased to approximately RMB219.3 million from RMB202.8 million for the six months ended June 30, 2016, which was mainly attributed to dividends paid in the amount of RMB206.8 million and the prepayment of listing expenses in the amount of RMB12.5 million in connection with the Group's IPO.

Structured Deposits

The Group from time to time invests in asset management products, primarily structured deposits, in order to better facilitate its cash management. Structured deposits were principal-protected products which typically had a fixed short term and may be redeemed upon their respective expiry dates. As at June 30, 2017, the Group invested approximately RMB761.3 million of structured deposits (June 30, 2016: approximately RMB175.0 million). Up to the date of this announcement, approximately RMB473.8 million out of the RMB761.3 million had been settled and redeemed upon their maturity with the remaining not yet fallen due. The underlying investments of the structured deposits were primarily bank deposits, short-term sovereign bonds, central bank bills, and other investment products issued by commercial banks in the inter-bank market in China, which were very liquid with a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group to earn a relatively higher rate of return. In the six months ended June 30, 2017, interest income from structured deposits amounted to RMB9.1 million (June 30, 2016: approximately RMB0.6 million).

The Group has implemented capital and investment policies to monitor and control the risks relating to its investment activities. The Group may only make investments in asset management products when it has surplus cash. Only investments in low-risk products issued by qualified commercial banks or other financial institutions are allowed and investments should be non-speculative in nature. The Group's capital and investment policies also specify the criteria for selecting investments to be considered and the detailed review procedures each proposed investment shall go through.

In view of an upside of earning a relatively higher return than current saving or fixed deposit rate under the low interest rate trend, as well as the principal-protected nature and a relatively short term of maturity of the structured deposits, the directors of the Company are of the view that the structured deposits pose little risk to the Group and the terms and conditions of each of the structured deposits are fair and reasonable and are in the interests of the Company and is shareholders as a whole.

Capital Expenditure

The Group's capital expenditures amounted to RMB286.5 million as of June 30, 2017, mainly in connection with the decoration and improvement of self-operated retail stores, and the improvement of production capacity and expansion of processing facilities. The Group financed its capital expenditures primarily with cash generated from operations and the proceeds from the IPO.

Contingent Liabilities and Guarantees

As of June 30, 2017, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against it.

Material Acquisition and Future Plans for Major Investment

In June 2017, the Group, through one of its wholly-owned subsidiaries, entered into an equity transfer agreement with Zhou Hei Ya Foods Joint Stock Limited Company, or ZHY Foods, a connected person of the Company, to acquire the 100% equity interest in Hebei Industrial Park, at a cash consideration of RMB17.9 million (equivalent to approximately HK$20.4 million) from ZHY Foods.

Other than above mentioned acquisition, in the six months ended June 30, 2017, the Group did not conduct any other material investments, acquisitions or disposals. Subsequent to June 30, 2017 and up to the date of this announcement, the Company subscribed for principal-protected structured deposits with an aggregate principal of RMB290.0 million with fix maturity terms from three to six months, please also refer to "Subsequent Events" below. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the prospectus of the Company dated November 1, 2016 (the "**Prospectus**"), the Group has no specific plan for major investment or acquisition for major assets or other business. However, the Group will continue to identify new opportunities for business development.

Turnover Ratios

Average inventory turnover days increased from 43.3 days in the six months ended June 30, 2016 to 61.8 days in the six months ended June 30, 2017, primarily because the Group had increased its strategic inventory reservation of certain major raw materials at lower prevailing market prices since the second half of 2016.

Average trade receivables turnover days slightly increased from 0.7 days in the six months ended June 30, 2016 to 0.9 days in the six months ended June 30, 2017, primarily due to the increase in sales from online channels which generally have a longer payment settlement cycle.

Average trade payables turnover days increased from 20.4 days in the six months ended June 30, 2016 to 25.7 days in the six months ended June 30, 2017, primarily because the Group increased the preparation of inventory reserves which increased the trade payables.

Employee and Labor Cost

As of June 30, 2017, the Group had a total of 4,283 employees, among which approximately 61.8% were retail store operations and sales staff and 18.7% were manufacturing staff at its processing facilities.

The Group has developed a performance evaluation system to assess the performance of its employees annually, which forms the basis for determining the salary levels, bonuses and promotions an employee may receive. Sales and marketing personnel may also receive bonuses based on the sales targets they accomplish, by taking into account the overall sales performance of the stores in the same regional market in the relevant period.

In the six months ended June 30, 2017, the Group incurred total labor costs of RMB200.5 million, representing approximately 12.4% of total revenue of the Group.

Top Suppliers and Top Customers

In the six months ended June 30, 2017, purchases from the Group's largest duck supplier in terms of dollar amount accounted for approximately 8.9% of total purchase cost and the aggregate purchases from its top five duck suppliers in terms of dollar amount in aggregate accounted for approximately 33.7% of total purchase cost.

In the six months ended June 30, 2017, due to the nature of the Group's business, revenue derived from its top five customers accounted for less than 30% of total revenue.

Reserves

As of June 30, 2017, the Group's reserves available for distribution to shareholders amounted to approximately RMB2,383.9 million.

Subsequent Events

Subsequent to June 30, 2017 and up to the date of this announcement, the Company subscribed for principal-protected structured deposits without guaranteed return with an aggregate principal of RMB290.0 million with fix maturity terms from three to six months. Subscription of such structured deposits were made for treasury management purpose to maximize the return on the unutilized funds of the Company after taking into account, among others, the level of risk, return on investment and the term to maturity. Other than these structured deposits, no material events were undertaken by the Group subsequent to June 30, 2017.

FINANCIAL INFORMATION

The unaudited interim condensed consolidated results of the Group for the six months ended June 30, 2017 are as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (audited)
REVENUE	3	**1,618,306**	1,389,135
Cost of sales		**(632,386)**	(518,104)
Gross profit		**985,920**	871,031
Other income and gains, net	3	**39,780**	13,008
Selling and distribution expenses		**(428,180)**	(311,937)
Administrative expenses		**(70,725)**	(61,933)
PROFIT BEFORE TAX	4	**526,795**	510,169
Income tax expense	5	**(125,761)**	(129,430)
PROFIT FOR THE PERIOD		**401,034**	380,739
Attributable to:			
Owners of the parent		**401,034**	380,739
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value, net of tax		**726**	1,537
Reclassification adjustments for gains and losses included in profit or loss – gains on disposal, net of tax		**(726)**	(1,537)
		—	—
Exchange differences:			
Exchange differences on translation of foreign operations		**(71,391)**	1,360
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(71,391)**	1,360
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**329,643**	382,099
Attributable to:			
Owners of the parent		**329,643**	382,099
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted (RMB)		**0.17**	0.20

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**683,311**	459,875
Prepaid land lease payments		**85,973**	64,797
Prepayments		**25,196**	21,905
Rental deposits		**63,368**	48,041
Other intangible assets		**6,898**	6,713
Deferred tax assets		**30,755**	26,569
Total non-current assets		**895,501**	627,900
CURRENT ASSETS			
Inventories		**227,750**	206,224
Trade receivables	8	**8,910**	7,882
Prepayments, deposits and other receivables	9	**893,076**	786,083
Due from the Controlling Shareholders		**1,230**	160
Available-for-sale investments		**—**	10,000
Restricted cash		**—**	60
Cash in transit		**5,357**	7,447
Cash and bank		**2,149,585**	2,461,260
Total current assets		**3,285,908**	3,479,116
CURRENT LIABILITIES			
Trade payables	10	**98,750**	81,981
Other payables and accruals		**244,270**	289,108
Government grants, current		**902**	996
Income tax payable		**97,317**	117,120
Total current liabilities		**441,239**	489,205
NET CURRENT ASSETS		**2,844,669**	2,989,911
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,740,170**	3,617,811

	30 June 2017	31 December 2016
	RMB'000 (unaudited)	RMB'000 (audited)
NON-CURRENT LIABILITIES		
Other payables and accruals	**4,000**	4,000
Government grants, non-current	**17,789**	18,240
Total non-current liabilities	**21,789**	22,240
NET ASSETS	**3,718,381**	3,595,571
EQUITY		
Equity attributable to owners of the parent		
Share capital	**16**	16
Reserves	**3,718,365**	3,595,555
TOTAL EQUITY	**3,718,381**	3,595,571

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 13 May 2015. The registered and correspondence office of the Company is located at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 November 2016 (the "Listing").

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except available-for-sale investments, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of the revised Hong Kong Financial Reporting Standards ("HKFRSs") and interpretations as of 1 January 2017, noted below.

The Group has adopted the following new and revised HKFRSs for the first time for the current period's financial statements

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 12

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

3. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts.

An analysis of revenue, other income and gains, net is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(audited)
Revenue		
Vacuum-packaged products	**147,270**	138,535
Modified-Atmosphere-Packaged products	**1,462,193**	1,232,220
Other products	**8,843**	18,380
Total	**1,618,306**	1,389,135

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(audited)
Other income and gains, net		
Government grants*	**10,912**	9,909
Interest income from bank deposits	**21,207**	81
Interest income from available-for-sale investments	**968**	2,049
Interest income from structured deposits	**9,143**	552
Gain on foreign exchange	**7,161**	—
Loss on disposal of items of property, plant and equipment	**(10,526)**	(59)
Others	**915**	476
Total	**39,780**	13,008

* There were no unfulfilled conditions and other contingencies attaching to government grants that had been recognized.

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(audited)
Cost of inventories sold	**501,459**	415,668
Depreciation of property plant and equipment	**27,401**	20,139
Amortization of prepaid land lease payments	**568**	434
Amortization of other intangible assets	**862**	700
Auditor's remuneration	**1,200**	1,586
Minimum lease payments under operating leases in respect of stores and plant premises	**134,607**	114,529
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**165,293**	135,159
Pension scheme contributions	**23,742**	20,387
Other welfare	**11,417**	10,059
Advertising and promotion expenses	**60,723**	12,796
Fuel cost	**9,320**	7,247
Utility expenses	**15,367**	9,156
Loss on disposal of items of property, plant and equipment	**10,526**	59
(Gain)/loss on foreign exchange	**(7,161)**	910
Interest income from bank deposits	**(21,207)**	(81)
Interest income from available-for-sale investments	**(968)**	(2,049)
Interest income from structured deposits	**(9,143)**	(552)
Transportation expenses	**33,905**	24,681

5. INCOME TAX

The major components of income tax expenses are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(audited)
Current income tax in PRC	**129,947**	132,479
Deferred tax	**(4,186)**	(3,049)
Total tax charge for the period	**125,761**	129,430

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The provision for current income tax in PRC is based on a statutory rate of 25% (six months ended 30 June 2016: 25%) on the assessable profits of subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

The statutory tax rate for the subsidiary in Hong Kong is 16.5% (six months ended 30 June 2016: 16.5%). No Hong Kong profits tax on the Group's subsidiary has been provided as there is no assessable profit arising in Hong Kong during the period.

6. DIVIDENDS

The Directors of the Company proposed not to declare any interim dividend for the six months ended 30 June 2017.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,383,140,500 (six months ended 30 June 2016: 1,895,000,000 shares) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2017 and 2016.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**401,034**	380,739
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,383,140,500**	1,895,000,000
Earnings per share:		
Basic and diluted (RMB)	**0.17**	0.20

8. TRADE RECEIVABLES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables	**8,910**	7,882
Less: Impairment provision	**—**	—
	8,910	7,882

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within 3 months	**8,910**	7,854
Over 3 months	**—**	28
	8,910	7,882

Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

All of the receivables were neither past due nor impaired and relate to diversified customers for whom there was no recent history of default.

9. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
	RMB'000 (unaudited)	RMB'000 (audited)
Prepaid rents	**67,097**	57,102
Advances to employees	**3,147**	2,758
Advances to suppliers	**827**	2,693
Deductible input VAT	**26,449**	14,462
Current portion of prepaid land lease payments	**1,874**	1,419
Structured deposits	**761,270**	685,317
Others	**32,412**	22,332
	893,076	786,083

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

10. TRADE PAYABLES

An aged analysis of outstanding trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within 3 months	**97,267**	77,410
3 to 6 months	**633**	964
Over 6 months	**251**	2,747
Over 12 months	**599**	860
	98,750	81,981

The trade payables are non-interest-bearing.

OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2017.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended June 30, 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except for the deviation from code provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company appointed Mr. Zhou Fuyu as both the Chairman and the Chief Executive Officer of the Company as the Board believed that such arrangement would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. However, in order to optimize the role of the Board members and to promote our business development, and in order to better comply with the principals and the code provisions set out in the CG Code, Mr. Zhou Fuyu has stepped down from the position of Chief Executive Officer with effect from March 22, 2017. Mr. Hao Lixiao, an executive Director, has been appointed as the Chief Executive Officer with effect from March 22, 2017. See the corporate governance report in the 2016 annual report of the Company for details.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, they have confirmed that they have complied with the Model Code throughout the six months ended June 30, 2017.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Chan Kam Ching, Paul, and Mr. Lu Weidong. Mr. WU Chi Keung is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed the Interim Results for the six months ended June 30, 2017.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

There is no change in the Directors' biographical details which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules since the date of the 2016 annual report of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.zhouheiya.cn). The interim report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

By order of the Board
Zhou Hei Ya International Holdings Company Limited
ZHOU Fuyu
Chairman

Hong Kong, August 22, 2017

As at the date of this announcement, Mr. Zhou Fuyu, Mr. Hao Lixiao, Mr. Zhu Yulong, Mr. Wen Yong and Mr. Hu Jiaqing are the executive directors of the Company; Mr. Pan Pan is the non-executive director of the Company; and Mr. Wu Chi Keung, Mr. Chan Kam Ching, Paul and Mr. Lu Weidong are the independent non-executive directors of the Company.