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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		Year-on-Year
	2017	**2016**	**Change**
	RMB'000	**RMB'000**	**%**
Revenue	**3,248,943**	2,816,489	15.4
Gross profit	**1,979,723**	1,755,102	12.8
Profit before tax	**999,414**	963,366	3.7
Profit for the year attributable to owners of the Company	**761,628**	715,611	6.4

OPERATIONAL HIGHLIGHTS

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

	Year Ended December 31,	
	2017	**2016**
Number of self-operated retail stores	**1,027**	778
Total sales volume (tons)	**39,134**	32,830
Average spending per purchase order (RMB)	**60.46**	59.24

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

	Year Ended December 31,			
	2017		**2016**	
	RMB'000	**%**	**RMB'000**	**%**
Ducks and duck part products	**2,836,217**	**87.3**	2,496,698	88.6
Other Products [1]	**412,726**	**12.7**	319,791	11.4
Total	**3,248,943**	**100.0**	2,816,489	100.0

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

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

	Year Ended December 31,			
	2017		**2016**	
	RMB'000	**%**	**RMB'000**	**%**
Self-operated retail stores [1]	**2,754,830**	**84.8**	2,420,857	86.0
Online channels	**344,455**	**10.6**	263,867	9.4
Distributors	**140,533**	**4.3**	121,237	4.2
Others [2]	**9,125**	**0.3**	10,528	0.4
Total	**3,248,943**	**100.0**	2,816,489	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 2.9% and 10.3% of the revenue from self-operated retail stores in 2016 and 2017, respectively.

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

PROPOSED FINAL DIVIDEND

Proposed final dividend of HKD0.12 per share (equivalent to RMB0.10 per share), amounting to approximately a total of RMB231.1 million and representing approximately 30% of the Group's net profit for the year ended December 31, 2017.

The board of directors (the "**Board**") of Zhou Hei Ya International Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended December 31, 2017. The annual 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 annual results have also been reviewed by the audit committee of the Company (the "**Audit Committee**").

BUSINESS OVERVIEW AND OUTLOOK

Market Overview

China's economy continued to grow, with a reported 6.9% of GDP growth in 2017. Driven by the rising of middle-class population, continuing urbanization, and increasing disposable income, it is believed that the retail food industry in China has entered into an upcycle, with particular focuses on purchasing power in lower-tier cities and the leverage of increasing penetration of Internet. In particular, "deepened consumption upgrades" and "innovative new retail" have become two emerging market trends.

As such, food companies in China have accelerated new retail strategies and business innovation, including the adoption of big-data and artificial intelligence technologies, to improve customer experience. Snack food companies are expected to take advantage of such industrial upcycle. Nevertheless, challenges remain in connection with raw material price and labor costs. In addition, post-80's and 90's generations have moved into its prime spending years, who increasingly aspire quality, health and brands.

Despite the continuing intensified competition in the casual braised food industry in China, the Group has achieved stable growth in 2017, comparing with the corresponding period in 2016.

Overall Business and Financial Performance

Store Network Expansion

In 2017, the Group continued to carry out its store network expansion plans, further penetrating in existing market and entering into new cities. The Group newly opened 313 self-operated retail stores and closed 64 stores during 2017. As a result, as of December 31, 2017, the total number of the Group's self-operated retail stores reached 1,027, covering 60 cities in 15 provinces and municipalities in China.

Transport infrastructures nationwide remain a strategic focus of the Group's store network expansion. The Group strived to deepen the strategic cooperation with landlords or property complex developers of subway stations, high-speed railway and airports. As of December 31, 2017, among all self-operated retail stores the Group operated, over 300 were transport hub stores and revenue derived from such hub stores accounted for approximately 40.7% of total revenue for the year ended December 31, 2017. In addition, the Group has strengthened its development in the more affluent eastern China area. In 2017, it newly opened 102 self-operated retail stores in eastern China area, representing 32.6% of total new stores during the year and revenue contributed by eastern China region increased by 60.1% from 2016 to 2017. Northern region has also presented strong growth potential. Meanwhile, central China region's revenue contribution continued to decrease and geographical balance was improved. The Group entered into 2 new provinces, namely Anhui and Shandong provinces, and 17 new cities in 2017.

The table below sets forth a breakdown of the number and revenue contribution of self-operated retail store network by geographic location for the periods indicated.

Number of Self-operated Retail Stores

	Year Ended December 31,			
	2017		**2016**	
	#	%	#	%
Central China [1]	**448**	**43.6**	370	47.6
Southern China [2]	**185**	**18.0**	164	21.1
Eastern China [3]	**199**	**19.4**	110	14.1
Northern China [4]	**132**	**12.9**	100	12.9
Southwestern China [5]	**63**	**6.1**	34	4.3
Total	**1,027**	**100.0**	778	100.0

Revenue from Self-operated Retail Stores

	Year Ended December 31,			
	2017		2016	
	RMB'000	%	RMB'000	%
Central China (1)	**1,704,153**	**62.0**	1,612,886	66.6
Southern China (2)	**372,964**	**13.5**	352,793	14.6
Eastern China (3)	**359,253**	**13.0**	224,374	9.3
Northern China (4)	**268,287**	**9.7**	202,196	8.3
Southwestern China (5)	**50,173**	**1.8**	28,608	1.2
Total	**2,754,830**	**100.0**	2,420,857	100.0

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

(2) Comprises Guangdong Province.

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

(4) Comprises Beijing, Tianjin, Hebei Province and Shandong 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 young customers.

For example, according to industry reports available to the public, crayfish industry in China has a huge potential and its value chain is estimated over RMB140 billion, among which, over 50% is attributable to the downstream relating to catering and service industries. Crayfish food is particularly popular among young generations. In May 2017, leveraging its solid market studies, in-depth understanding of consumption demands, sophisticated braising techniques, as well as experience in supply chain management, the Group successfully introduced its crayfish products ("聚一蝦"). After the product launch, the Group continued to improve processing techniques for the storage of seasonal crayfish raw materials, which enables the Group to offer crayfish products with fresh and chewy texture even out of season.

Production Capacity

The Group continued to optimize its production arrangements to increase its capacity and efficiency. New Phase II Wuhan facility has commenced commercial operation in 2017. The Group is also in the progress of further upgrading the existing Wuhan facility, which is expected to operate in 2018. Moreover, the newly acquired Hebei Zhou Hei Ya Foods Industrial Park Co., Ltd. ("**Hebei Industrial Park**"), has production facilities which are expected to commence operation by 2018.

Additionally, the Group's new facility located in southern China is expected to commence operation by 2019. It has also been actively exploring opportunities to establish processing facilities in southwestern and eastern regions in China. The Group believes that its total production capacity will be further enhanced once the new facilities commence full commercial operation as scheduled.

The Group also expects to continue to enhance its production technologies and nationwide production capacity in order to satisfy the increasing customer demands. It also believes that the Group's current and planned production facilities will effectively reduce the transportation distance and enhance the service radius of the Group's, which enables a prolonged shell life of the Group's products, especially after the Group continues to enter into a new regions.

Branding and Big-data Marketing Strategy

In 2017, the Group further implemented its creative entertainment marketing strategies to promote its brand awareness among young customers. It increased investments in traditional advertisement channels, such as placing advertisements in transport hubs, landmark buildings in strategic core cities, and on high-speed railway as well as subways, including sponsoring Zhouheiya theme trains.

In 2017, the Group continued advertisement placement on various online marketplaces and online food ordering and delivery services platforms to reach target customers. It also engaged new marketing initiatives, such as airing online live stream, purchasing Good Find keyword search ranking and Must Buy display services on Tmall, to enhance the engagement with potential customers, which effectively inspired the online sales.

Membership benefits remain one of the Group's strategic development focuses. Taking advantage of the digitalized membership programs and the customer relationship system which is currently under development, the Group is able to efficiently gather and process membership information and further to leverage the data analysis to implement precision marketing, which allows the Group to echo the opportunities from consumption upgrades and new retail models. Given that the Group adopted strategic inventory reserves of certain raw material at lower prevailing market prices in 2017, the Group is confident to launch more marketing and promotional campaigns and organize more events for its members, which allows the Group to further invest its brand image and increase customer loyalty. The Group continued its efforts to streamline online and offline payment methods in order to offer more convenient, safe and smooth payment experience. Customers now are able to register their membership cards online through Wechat and Alipay. As of December 31, 2017, the number of its online membership cards issued by the Group significantly increased to 9.4 million and repeated purchases of existing members also increased.

To further systematically execute its big-data marketing strategy, the Group has established a dedicated big-data marketing team and also upgraded its enterprise resource planning, or ERP system accordingly.

E-Commerce and Online Food Ordering and Delivery Service

The Group continued its e-commerce strategies to boost its online sales, mainly through cooperation with third party online marketplaces. The Group has established strong presence on 15 domestic major online marketplaces by the end of 2017. Revenue derived from online channels increased by 30.5% from RMB263.9 million in 2016 to RMB344.5 million in 2017, mainly due to the significant growth of the Group's online sales through online platforms such as Tmall, JD.com, and Wechat store.

Moreover, online food ordering and delivery has become a new and popular dining style. Driven by the changing lifestyle of post-80's and 90's generation who aspire efficiency and quality, the market of online food ordering and delivery services shows great growth potential. The Group explored cooperative opportunities with various online food ordering and delivery service platforms since 2016, and endeavored to further penetrate on such platforms nationwide ever since. By the end of 2017, the Group's products were available on five mainstream online food ordering and delivery platforms in China and may be locally delivered by online ordering in 55 cities. Revenue derived from online ordering and delivery services platforms accounted for approximately 2.9% and 10.3% of the revenue from self-operated retail stores in 2016 and 2017, respectively.

Although retail stores remained the Group's current major distribution channel, customer orders from online marketplaces, and from online food ordering and delivery services are expected to continue to grow rapidly in the upcoming years and will bring structural consumption changes, profoundly affecting the growth rate and market share of offline retails.

Industry and Business Outlook for 2018

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, also generate significant potentials and possibilities.

The Group expects to continue to take advantage of its current leading market position in the casual braised food industry and to further strengthen and advance its leadership and market share in China. In 2018, it intends to:

- Further penetrate existing markets and strategically expand into new regions;
- Innovate processing techniques and product offerings in order to optimize product mix;
- Develop and utilize big-data technologies and improve membership benefits;
- Attract young customers and continue to lead a lifestyle with convenience and fashion;
- Capitalize on industrial consolidation and cooperation; and
- Enhance investment in human capital and optimize organizational procedures.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Year Ended December 31,				Year-on-year Change
	2017		2016		
	RMB'000	%	RMB'000	%	%
Revenue	**3,248,943**	**100.0**	**2,816,489**	**100.0**	**15.4**
Cost of sales	**(1,269,220)**	**(39.1)**	(1,061,387)	(37.7)	19.6
Gross profit	**1,979,723**	**60.9**	**1,755,102**	**62.3**	**12.8**
Other income and gains, net	**109,737**	**3.4**	50,704	1.8	116.4
Selling and distribution expenses	**(947,990)**	**(29.2)**	(700,893)	(24.9)	35.3
Administrative expenses	**(142,056)**	**(4.4)**	(141,547)	(5.0)	(0.4)
Profit before tax	**999,414**	**30.7**	**963,366**	**34.2**	**3.7**
Income tax expense	**(237,786)**	**(7.3)**	(247,755)	(8.8)	(4.0)
Profit for the year	**761,628**	**23.4**	**715,611**	**25.4**	**6.4**
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	**1,425**	**0.0**	2,231	0.1	(36.1)
Reclassification adjustments for gains and losses included in the profit or loss - gains on disposal, net of tax	**(1,425)**	**(0.0)**	(2,231)	(0.1)	(36.1)
Exchange differences on translation of foreign operations	**(149,693)**	**(4.6)**	50,604	1.8	(395.8)
Other comprehensive income for the year, net of tax	**(149,693)**	**(4.6)**	50,604	1.8	(395.8)
Total comprehensive income for the year	**611,935**	**18.8**	**766,215**	**27.2**	**(20.1)**
Basic and diluted earnings per share (RMB)	**0.32**	**N.A.**	0.37	N.A.	(13.5)

Revenue

The Group's total revenue increased by approximately 15.4% from RMB2,816.5 million for the year ended December 31, 2016 to RMB3,248.9 million for the year ended December 31, 2017, which was primarily due to (i) the continuing store network expansion; (ii) the growth in revenue derived from online channels and from online food ordering and delivery platforms; and (iii) the overall increase in sales volumes, despite that various promotional events the Group had initiated in 2017 caused a slight decrease in average selling prices.

Revenue contributed by the Group's self-operated retail stores amounted to RMB2,754.8 million, representing approximately 84.8% of total revenue for the year ended December 31, 2017, compared with RMB2,420.9 million, representing approximately 86.0% for the year ended December 31, 2016.

Sales on online food and delivery services platforms increased significantly, accounting for approximately 10.3% of revenue derived from self-operated retail stores, compared with approximately 2.9% in 2016.

Moreover, the Group's e-commerce continued to grow and revenue derived from the online channels increased by approximately 30.5% from RMB263.9 million for the year ended December 31, 2016 to RMB344.5 million for the year ended December 31, 2017, primarily due to the Group's continued e-commerce marketing strategies to enhance its brand awareness online.

Geographically, the number of self-operated stores increased in each regional markets. Central China remained to be the major regional market while its proportion of total revenue continued to decrease in 2017. Revenue contributed by eastern China increased significantly by 60.1% and northern China showed strong growth potential with an increase of 32.7% in revenue, respectively.

Cost of Sales

Cost of sales increased by approximately 19.6% from RMB1,061.4 million for the year ended December 31, 2016 to RMB1,269.2 million for the year ended December 31, 2017, which was attributable to the overall growth in total sales volumes and the increases in depreciation of equipment and facilities and utilities.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit increased by 12.8% from RMB1,755.1 million for the year ended December 31, 2016 to RMB1,979.7 million for the year ended December 31, 2017.

Due to the overall decrease in the average selling prices mainly resulting from sales discounts and promotional offers, gross profit margin decreased from 62.3% in the year ended December 31, 2016 to 60.9% in the year ended December 31, 2017.

Other Income and Gains, Net

The Group's other income and gains, net increased by approximately 116.4% from RMB50.7 million for the year ended December 31, 2016 to RMB109.7 million for the year ended December 31, 2017. The increase was primarily due to a significant increase of RMB59.5 million in interest income from bank deposits and structured deposits and investment income from available-for-sale investments and a foreign exchange gain of RMB11.1 million, partially offset by a loss on disposal of property, plant and equipment of approximately RMB15.1 million mainly in connection with the disposal of equipment and plant during the process of upgrading its existing Wuhan processing facility.

The Group established and had strictly followed the capital and investment policies to monitor and control the risks relating to its investment activities.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately 35.3% from RMB700.9 million for the year ended December 31, 2016 to RMB948.0 million for the year ended December 31, 2017, primarily due to the expansion of retail store network, which resulted in the increases in rental expenses and salary and welfare for the selling and marketing staff, and more advertisement placements in more cities as well as in transport hubs. The increase was also attributable to the strong growth of sales on online marketplaces and online food ordering and delivery services platforms, which significantly increased the services fees and delivery fees paid to such online marketplaces and online food ordering and delivery services platforms.

Administrative Expenses

The Group's administrative expenses increased by approximately 0.4% from RMB141.5 million for the year ended December 31, 2016 to RMB142.1 million for the year ended December 31, 2017, primarily due to an increase in salary and welfare for the Group's general and administrative personal as the Group's increased headcounts to support its business growth and an increase in other tax and surcharges, partially offset by a decrease in professional fees incurred in 2016 in connection with the Group's initial public offering (the "**IPO**").

Profit Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB999.4 million for the year ended December 31, 2017, increased by approximately 3.7% from RMB963.4 million for the year ended December 31, 2016.

Income Tax Expense

Income tax expense decreased by approximately 4.0% from RMB247.8 million for the year ended December 31, 2016 to RMB237.8 million for the year ended December 31, 2017. Although profit before tax increased in the year ended December 31, 2017 compared to 2016, the total income tax expense slightly decreased, mainly due to the different tax jurisdictions the income was subject to.

Profit for the Year

As a result of the foregoing, the Group's net profit increased by 6.4% from RMB715.6 million for the year ended December 31, 2016 to RMB761.6 million for the year ended December 31, 2017. Net profit margin was 25.4% in the year ended December 31, 2016 and 23.4% in the year ended December 31, 2017, respectively.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations changed from other comprehensive income of RMB50.6 million for the year ended December 31, 2016 to other comprehensive loss of RMB149.7 million for the year ended December 31, 2017, primarily represented the foreign exchange loss of cash and bank denominated in Hong Kong dollars and U.S. dollars held by overseas entities of which functional currencies are Hong Kong dollars.

Total Comprehensive Income for the Year

As a result of the foregoing, the Group's total comprehensive income for the year ended December 31, 2017 decreased by 20.1% to RMB611.9 million from RMB766.2 million for the year ended December 31, 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 non-recurring items. Adjusted net profit is calculated by deducting listing expenses the Group incurred in connection with its IPO in 2016. The table below sets forth the reconciliation of profit for the year to adjusted net profit.

	Year Ended December 31,	
	2017	**2016**
	RMB'000	**RMB'000**
Profit for the year	**761,628**	715,611
Listing expenses	**—**	21,481
Adjusted net profit [(1)]	**761,628**	737,092

(1) 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 non-recurring items that the Group does not consider indicative of the performance of the business of the Group. Other companies in the industry the Group operates in 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 year ended December 31, 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 December 31, 2017, the Group had net assets of approximately RMB4,000.7 million, as compared to RMB3,595.6 million as of December 31, 2016, primarily comprising current assets of RMB3,471.8 million, non-current assets of approximately RMB1,100.6 million, current liability of RMB530.7 million and non-current liability of approximately RMB41.0 million.

Cash and Bank

As compared with RMB2,461.3 million as of December 31, 2016, the Group had cash and bank of approximately RMB2,039.2 million as of December 31, 2017, which was consisted of unrestricted cash and bank balances of approximately RMB98.7 million and term deposits of RMB1,940.5 million, which was consisted of cash and cash equivalents of approximately RMB64.0 million and term deposits with maturity over three months of approximately RMB1,876.5 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 year ended December 31, 2017, the Group had utilized approximately RMB421.5 million of the proceed from the IPO, comprising approximately RMB17.9 million in strategic acquisitions and further develop strategic alliance, RMB335.6 million in the construction and improvement of processing facilities, logistics and storage centers, RMB24.7 million in the development of retail store network, RMB32.3 million in brand image campaigns, including the e-commerce marketing campaigns, and RMB11.0 million in upgrading its ERP system.

As of December 31, 2017, net proceeds not utilized had been deposited into short-term deposits and term deposits with maturity over three month.

Indebtedness

As of December 31, 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 December 31, 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 year ended December 31, 2017, net cash generated from operating activities decreased to approximately RMB640.7 million from RMB757.3 million for the year ended December 31, 2016, which was partially attributed to the increases in trade receivable and rental deposits. Net cash generated from operating activities in 2017 was mainly comprised of profit before tax of RMB999.4 million, adjusted for certain non-cash items such as depreciation and amortization of RMB60.1 million, plus additional factors that affected net cash generated from operating activities included (i) income tax paid of RMB259.4 million, (ii) interest income from bank deposits of RMB42.4 million, (iii) an increase in inventories of RMB42.2 million, (iv) an increase in pre-payments, deposits and other receivables of RMB36.8 million, and (v) an increase in rental deposits of RMB22.4 million.

For the year ended December 31, 2017, net cash used in investing activities decreased to approximately RMB320.9 million from RMB2,938.8 million for the year ended December 31, 2016, which was mainly attributed to purchases of structured deposits and available-for-sale investments in the aggregate amount of RMB3,128.8 million, purchases of items of property, plant and equipment of RMB269.3 million in connection with the construction and improvement of the Group's processing facilities, and the repayment of RMB149.8 million due to a related party in connection with the acquisition of Hebei Industrial Park, partially offset by a decrease of term deposits of maturity over three months of RMB384.1 million and proceeds from disposal of available-for-sale investments and structured deposits of RMB2,832.1 million.

For the year ended December 31, 2017, net cash used in financing activities was to approximately RMB219.3 million, compared with the cash generated from financing activities of RMB2,254.1 million for the year ended December 31, 2016, which was mainly attributed to dividends paid of RMB206.8 million and payments of listing expenses of RMB12.5 million in connection with its 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 had their respective expiry dates. As of December 31, 2017, the Group had a balance of structured deposits in the amount of approximately RMB962.0 million. Up to the date of this announcement, approximately RMB510.0 million out of the RMB962.0 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 short-term sovereign bonds, financial bonds and 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 year ended December 31, 2017, interest income from structured deposits amounted to RMB26.9 million (December 31, 2016: approximately RMB5.2 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 (the "**Directors**") 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 its shareholders as a whole.

Capital Expenditure

The Group's capital expenditures amounted to RMB506.2 million as of December 31, 2017, mainly in connection with purchases and upgrades of production lines and the improvement of processing facilities, including the acquisition of Hebei Industrial Park, the land use right in connection with the new facility in southwestern China as well as the renovation and improvement of self-operated retail stores. The Group financed its capital expenditures primarily with cash generated from operations and the proceeds from the IPO.

Contingent Liabilities and Guarantees

As of December 31, 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, the Group did not conduct any other material investments, acquisitions or disposals in 2017. Subsequent to December 31, 2017 and up to March 21, 2018, being the date of this announcement, the Company entered into a partnership agreement with other two companies to jointly form an investment fund. 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 58.5 days in 2016 to 64.5 days in 2017, primarily because the Group had increased the inventory reserves of certain major raw materials at lower prevailing market prices.

Average trade receivables turnover days increased from 0.9 days in 2016 to 1.8 days in 2017, primarily due to (i) the increase in sales from online channels which generally have a longer payment settlement cycle, and (ii) the change of escrow payment arrangement with the property managers of certain transport hub stores to a monthly or even longer basis.

Average trade payables turnover days increased from 22.7 days in 2016 to 23.9 days in 2017, primarily because the Group increased the preparation of inventory reserves which increased the trade payables.

Employee and Labor Cost

As of December 31, 2017, the Group had a total of 4,651 employees, among which approximately 62.7% were retail store operations and sales staff and 17.3% 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 year ended December 31, 2017, the Group incurred total labor costs of RMB433.2 million, representing approximately 13.3% of total revenue of the Group.

Top Suppliers and Top Customers

In the year ended December 31, 2017, purchases from the Group's largest duck supplier in terms of dollar amount accounted for approximately 10.9% of total purchase cost and the aggregate purchases from its top five duck suppliers in terms of dollar amount in aggregate accounted for approximately 33.1% of total purchase cost.

Due to the nature of the Group's business, in the year ended December 31, 2017, revenue derived from its top five customers accounted for less than 30% of total revenue.

Reserves

As of December 31, 2017, the Group's reserves available for distribution to shareholders amounted to approximately RMB2,407.1 million.

Subsequent Events

Subsequent to December 31, 2017 and up to March 21, 2018, being the date of this announcement, the Company, through an indirect wholly-owned subsidiary, entered into a partnership agreement with other two companies to jointly form an investment fund, as a limited partner with an initial subscription amount of RMB500 million, representing 50% of the total initial subscription amount of this fund. The fund mainly invests in the consumption industry and focuses on the market opportunities in the consumption upgrade and new retail field. By investing in this fund, the Company aims to explore the industry synergetic resources and promote the sustainable development of the Company.

Other than the abovementioned matter, no material events were undertaken by the Group subsequent to December 31, 2017.

FINANCIAL INFORMATION

The audited consolidated annual results of the Group for the year ended December 31, 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017	2016
		RMB'000	RMB'000
REVENUE	3	**3,248,943**	2,816,489
Cost of sales		**(1,269,220)**	(1,061,387)
Gross profit		**1,979,723**	1,755,102
Other income and gains, net	3	**109,737**	50,704
Selling and distribution expenses		**(947,990)**	(700,893)
Administrative expenses		**(142,056)**	(141,547)
PROFIT BEFORE TAX	4	**999,414**	963,366
Income tax expense	5	**(237,786)**	(247,755)
PROFIT FOR THE YEAR		**761,628**	715,611
Attributable to:			
Owners of the parent		**761,628**	715,611
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		**1,425**	2,231
Reclassification adjustments for gains and losses included in profit or loss – gains on disposal, net of tax		**(1,425)**	(2,231)
Exchange differences:			
Exchange differences on translation of foreign operations		**(149,693)**	50,604
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(149,693)**	50,604
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**611,935**	766,215
Attributable to:			
Owners of the parent		**611,935**	766,215
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted (RMB)		**0.32**	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017	2016
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**839,028**	459,875
Prepaid land lease payments		**111,467**	64,797
Prepayments		**40,288**	21,905
Rental deposits		**70,459**	48,041
Other intangible assets		**7,962**	6,713
Deferred tax assets		**31,410**	26,569
Total non-current assets		**1,100,614**	627,900
CURRENT ASSETS			
Inventories		**248,435**	206,224
Trade receivables	8	**25,506**	7,882
Prepayments, deposits and other receivables	9	**1,108,512**	786,083
Due from the Controlling Shareholders		**1,801**	160
Available-for-sale investments		**30,000**	10,000
Restricted cash		**14,911**	60
Cash in transit		**3,489**	7,447
Cash and bank		**2,039,166**	2,461,260
Total current assets		**3,471,820**	3,479,116
CURRENT LIABILITIES			
Trade payables	10	**86,301**	81,981
Other payables and accruals		**347,281**	289,108
Government grants, current		**902**	996
Income tax payable		**96,263**	117,120
Total current liabilities		**530,747**	489,205
NET CURRENT ASSETS		**2,941,073**	2,989,911
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,041,687**	3,617,811
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,076**	—
Other payables and accruals		**—**	4,000
Government grants, non-current		**36,938**	18,240
Total non-current liabilities		**41,014**	22,240
NET ASSETS		**4,000,673**	3,595,571
EQUITY			
Equity attributable to owners of the parent			
Share capital		**16**	16
Reserves		**4,000,657**	3,595,555
TOTAL EQUITY		**4,000,673**	3,595,571

NOTES TO 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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These 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 Group has adopted the following revised HKFRSs for the first time for the current year's financial statements

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The adoption of these 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 and other income and gains, net is as follows:

	2017	2016
	RMB'000	RMB'000
Revenue		
Vacuum-packaged products	**291,640**	273,088
Modified-Atmosphere-Packaged products	**2,933,732**	2,517,416
Other products	**23,571**	25,985
Total	**3,248,943**	2,816,489

	2017	2016
	RMB'000	RMB'000
Other income and gains, net		
Government grants*	**39,131**	37,358
Interest income from bank deposits	**42,402**	3,466
Interest income from available-for-sale investments	**1,900**	2,974
Interest income from structured deposits	**26,860**	5,222
Loss on disposal of items of property, plant and equipment	**(15,092)**	(168)
Gain on foreign exchange	**11,147**	—
Others	**3,389**	1,852
Total	**109,737**	50,704

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

4. PROFIT BEFORE TAX

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

	Notes	**2017**	2016
		RMB'000	**RMB'000**
Cost of inventories sold		**1,055,202**	896,005
Depreciation of property plant and equipment		**56,526**	44,408
Amortisation of prepaid land lease payments		**1,229**	867
Amortisation of other intangible assets		**2,371**	1,497
Auditor's remuneration		**2,230**	2,400
Minimum lease payments under operating leases in respect of stores and plant premises		**303,538**	236,812
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		**356,659**	283,841
Pension scheme contributions		**52,335**	43,622
Other welfare		**24,189**	21,447
Advertising and promotion expenses		**60,158**	46,136
E-commerce and online ordering platform related service and delivery fee		**154,005**	80,049
Fuel cost		**17,929**	14,716
Utility expenses		**35,213**	25,541
Loss on disposal of items of property, plant and equipment	3	**15,092**	168
(Gain) /loss on foreign exchange	3	**(11,147)**	4,796
Interest income from bank deposits	3	**(42,402)**	(3,466)
Interest income from available-for-sale investments	3	**(1,900)**	(2,974)
Interest income from structured deposits	3	**(26,860)**	(5,222)
Transportation expenses		**72,742**	55,076

5. INCOME TAX

The major components of income tax expenses are as follows:

	2017	**2016**
	RMB'000	**RMB'000**
Current income tax in PRC	**238,551**	249,482
Deferred tax	**(765)**	(1,727)
Total tax charge for the year	**237,786**	247,755

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% (2016: 25%) of 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% (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 year.

6. DIVIDENDS

The board has recommended the payment of a final dividend of HK$0.12 (equivalent to RMB0.10) per ordinary share for the year ended 31 December 2017, representing a total payment of approximately RMB231,095,000. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividends declared by the Company's subsidiaries to the then shareholders during the year are as follows:

	2017	2016
	RMB'000	RMB'000
Dividends declared	**231,095**	214,683

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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

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

	2017	2016
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**761,628**	715,611
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,383,140,500**	1,959,714,279
Earnings per share:		
Basic and diluted (RMB)	**0.32**	0.37

8. TRADE RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**25,506**	7,882
Less: Impairment provision	**—**	—
	25,506	7,882

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The ageing 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:

	2017	2016
	RMB'000	RMB'000
Within 3 months	**25,506**	7,854
Over 3 months	**—**	28
	25,506	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. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Prepaid rents	**71,787**	57,102
Advances to employees	**2,671**	2,758
Advances to suppliers	**6,869**	2,693
Deductible input VAT	**41,685**	14,462
Current portion of prepaid land lease payments	**2,417**	1,419
Structured deposits	**962,000**	685,317
Others	**21,083**	22,332
	1,108,512	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

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

	2017	2016
	RMB'000	RMB'000
Within 3 months	**84,807**	77,410
3 to 6 months	**844**	964
Over 6 months	**30**	2,747
Over 12 months	**620**	860
	86,301	81,981

The trade payables are non-interest-bearing.

OTHER INFORMATION

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 year ended December 31, 2017.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HKD0.12 per share (adopting an exchange rate of HK$1=RMB0.8081, equivalent to RMB0.10 per share) and payable in Hong Kong dollars, amounting to approximately a total of RMB231.1 million for the year ended December 31, 2017 (the "**2017 Final Dividend**"), representing approximately 30% of our net profit for the year ended December 31, 2017. The 2017 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**") to be held on May 31, 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Monday, May 28, 2018 to Thursday, May 31, 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the forthcoming AGM to be held on Thursday, May 31, 2018, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Friday, May 25, 2018.

Subject to the approval of the declaration of the 2017 Final Dividend at the forthcoming AGM, the register of members of the Company will also be closed from Thursday, June 7, 2018 to Monday, June 11, 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed 2017 Final Dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Wednesday, June 6, 2018. The 2017 Final Dividend, if approved by the Company's shareholders at the forthcoming AGM, will be paid on or about Monday, June 25, 2018 to those shareholders whose name appear on the register of member of the Company on Monday, June 11, 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended December 31, 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**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 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.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the 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. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended December 31, 2017.

AUDIT COMMITTEE

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

The Audit Committee has reviewed and discussed the annual results for the year ended December 31, 2017. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2017 as set out in this announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on this announcement.

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

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.zhouheiya.cn). The annual 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, March 21, 2018

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.