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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		Year-on-Year
	2018	**2017**	**Change**
	RMB'000	**RMB'000**	**%**
Revenue	**3,211,521**	3,248,943	(1.2)
Gross profit	**1,847,432**	1,979,723	(6.7)
Profit before tax	**726,971**	999,414	(27.3)
Profit for the year attributable to owners of the Company	**540,093**	761,628	(29.1)

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,	
	2018	**2017**
Number of self-operated retail stores	**1,288**	1,027
Total sales volume (tons)	**37,756**	39,134
Average spending per purchase order (RMB)	**63.66**	60.46

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,			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Ducks and duck part products	**2,803,765**	**87.3**	2,836,217	87.3
Other products (1)	**407,756**	**12.7**	412,726	12.7
Total	**3,211,521**	**100.0**	3,248,943	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,			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Self-operated retail stores (1)	**2,776,397**	**86.5**	2,754,830	84.8
Online channels	**302,655**	**9.4**	344,455	10.6
Distributors	**117,515**	**3.7**	140,533	4.3
Others (2)	**14,954**	**0.4**	9,125	0.3
Total	**3,211,521**	**100.0**	3,248,943	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 10.3% and 13.7% of the revenue from self-operated retail stores in 2017 and 2018, respectively.

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

PROPOSED FINAL DIVIDEND

Proposed final dividend of HKD0.16 per ordinary share of the Company (the "**Shares**") (equivalent to RMB0.14 per Share), amounting to approximately a total of RMB326,174,000 and representing approximately 60% of the Group's net profit for the year ended December 31, 2018.

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, 2018. 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

In 2018, the casual food industry in China faced increasing competition. The post-00 and the post-90 generations have become the major consumer group of casual food in China. Young customers applaused personalized shopping experience and is willing to try fresh and new products, which requires the market participants to quickly innovate and adapt. Along with the accelerated Internet development and the strong influence of new media, more and more snack food brands have entered into the casual food market, which further increases the competition. Moreover, the deepening consumption upgrade in China and the "new retail" trends have raised the awareness to consumers about quality, variety and customer experience. Customers have exhibited more specific preference and will pick the most suitable products within their budgets. As such, the market participants are urged to respond to the evolving customer demands and to create more consumption solutions with multi-perspective coverage, convenience and alternative consumption scenarios.

Meanwhile, as a result of the tense supply-demand relationship in the industry in China, and the continuous expansions of its store network and the production capacities at the same time, the Group faced significant pressure from the increasing raw material costs, rental and labor costs in 2018.

In 2018, in response to the increasing competition in the casual food industry in China, the Group has continued its consumer-oriented strategy. The Group continued to optimize its online and offline channels and continued to expand its store network and improve production capacity. In addition, the Group has also enhanced branding and marketing efforts. The Group strived for fitting in and capturing the opportunities brought by the trend of “new retail”, in order to achieve a breakthrough during the intense competition in the retail food industry in China.

Overall Business and Financial Performance

Store Network Expansion

In 2018, the Group continued to implement the store network expansion strategy that would geographically match its production capacities and accelerated the establishment of its presence in new regional markets. It further penetrated in existing market and entering into new regions in 2018, such as Fujian and Shaanxi Provinces. It newly opened 392 self-operated retail stores and closed 131 stores during 2018. As a result, as of December 31, 2018, the total number of the Group’s self-operated retail stores reached 1,288, covering 90 cities in 17 provinces and municipalities in China.

Geographically, central China region remained the major regional market of the Group in 2018, contributing approximately 60.2% of total revenue derived from self-operated retail stores for the year ended December 31, 2018. As a result of the commencement of operation of its northern China processing facility, the Group speeded up the store opening process in northern China. In 2018, it newly opened 89 stores in northern China region, increasing its penetration in such region.

Transport infrastructures remain a strategic focus of the Group’s store network expansion, such as airports, railway stations and subway stations, or the ancillary facilities surrounding the transport infrastructure. As of December 31, 2018, among all the Group’s self-operated retail stores, approximately 390 were transport hub stores and revenue derived from such stores accounted for approximately 42.5% of total revenue for the year ended December 31, 2018.

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,			
	2018		**2017**	
	#	**%**	**#**	**%**
Central China [1]	**562**	**43.6**	448	43.6
Southern China [2]	**230**	**17.9**	185	18.0
Eastern China [3]	**225**	**17.5**	199	19.4
Northern China [4]	**196**	**15.2**	132	12.9
Southwestern China [5]	**74**	**5.8**	63	6.1
Northwestern China [6]	**1**	**0.0**	—	—
Total	**1,288**	**100.0**	1,027	100.0

Revenue from Self-operated Retail Stores

	Year Ended December 31,			
	2018		2017	
	RMB'000	%	RMB'000	%
Central China [1]	**1,671,845**	**60.2**	1,704,153	62.0
Southern China [2]	**405,151**	**14.5**	372,964	13.5
Eastern China [3]	**335,447**	**12.1**	359,253	13.0
Northern China [4]	**311,797**	**11.2**	268,287	9.7
Southwestern China [5]	**51,843**	**2.0**	50,173	1.8
Northwestern China [6]	**314**	**0.0**	—	—
Total	**2,776,397**	**100.0**	2,754,830	100.0

(1) Comprises Hubei Province, Hunan Province, Henan Province, Jiangxi Province and Anhui Province.
(2) Comprises Guangdong Province and Fujian Province.
(3) Comprises Shanghai, Jiangsu Province and Zhejiang Province.
(4) Comprises Beijing, Tianjin, Hebei Province and Shandong Province.
(5) Comprises Chongqing and Sichuan Province.
(6) Comprises Shaanxi Province.

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. It has been upgrading the production equipment and enhancing the level of automation. The Group currently has two processing facilities located in Hebei and Hubei, and it is in the process of constructing four additional processing facilities located in Guangdong, Jiangsu, Sichuan and Hubei. Due to the relatively short shelf-life of its products, the Group plans and allocates the production capacities among its facilities, to ensure the demands from all the regional markets are adequately served.

In June 2018, the Group closed its Shanghai processing facility. The northern China processing facility located in Hebei commenced full operation in April 2018 to serve the demands arising from northern and eastern China. The northern China processing facility helps to address the previous bottleneck of long transportation distance and short shelf-life of products. The Phase I of central China processing facility located in Hubei has also commenced operation since October 2018, which mainly produce vacuum packaged products.

In addition, the southern China processing facility located in Guangdong is currently under construction, which is expected to commence operation in 2019 to serve the demands arising from cities in southern China. The Group is also planning the construction of the new eastern and southwestern China facilities in Jiangsu and Sichuan Provinces and a new facility in Qianjiang, Hubei Province.

The Group believes that, with its current and new production facilities under development, it is able to enhance production capacities nationwide which would match its production capacities and support the Group to further penetrate into regional markets, and meet the needs arising from most parts of the nation in the future.

Product Upgrades

The Group is devoted to improving product quality. In 2018, it leveraged the newly launched SAP system and MES system to strengthen the controls over procedures, material management, product traceability during its product processing processes. It continuously upgraded the production equipment and enhanced the level of automation, aiming at improving the product quality.

In 2018, it has been continuously upgrading existing products and developing new products to enhance its product portfolio, particularly focusing on innovative and trending products which appeal to young customers. The Group has always been willing and determined in trying new product development. For example, to cater the current consumption trend of pursuing for a health, green and fresh lifestyle among the young generation, the Group's product research team released the unique new vegetable flavor of the Zhou Hei Ya Crayfish after careful and repeated testing. It upgraded and reformulated its "Zhou Hei Ya Crayfish (聚一蝦)", through the continuous improvements in processing technologies to solve the seasonal availability of the key raw material of crayfish.

Through the cooperation with business partners, the Group launched the "Zhou Xiao Ban (周小伴)" sparkling water and beer in the summer of 2018, which are offered in the form of a specific Zhouheiya set meal and available in the Group's retail stores and contributed to the enhancement of customer experience.

In addition, the Group launched new multi-product packs and upgraded its gift boxes in 2018, which further expanded its product portfolio and enhanced its brand image among customers.

Marketing, Branding Campaigns and Membership Strategy

In 2018, the Group further implemented its customer-oriented marketing strategy and continued to design creative entertainment marketing campaigns featured with music, e-sport and tourism elements, to promote its brand awareness among young customers.

The Group continued to leverage the large amount of member data it accumulated as well as its big-data analytics capabilities to constantly develop and improve its marketing decisions. On one hand, it actively enhanced its brand influence in China through new media channels. It is adept in utilizing popular Internet language and leveraging various new media channels to promote itself, and to exchange or acquire traffic from those channels. On the other hand, it further implemented its precision marketing strategy by designing various promoting events, targeting different customer groups. For example, targeting young music lovers, it organized the Northern China Campus Rock Music Festival in 2018 which covered over 70 universities and colleges in China. It sponsored local e-sport game competitions in Guangdong Province. It also cooperated with popular self-media accounts and invited online celebrities and young public figures to promote the brand. Meanwhile, it continued to utilize traditional advertisement channels, such as placing advertisements in airports, subways, and traffic radio stations to enhance brand awareness.

The Group continued its membership strategy and launched a variety of marketing events in 2018, including member-exclusive coupons, accumulated point redemptions, offline tasting events. Among other things, the Group sponsored 40 members to participate in the third trip of its "Zhouheiya membership foodies' world tour" (周黑鴨吃貨之旅) to Russia in this year of the World Cup. Such events were aiming at increasing the number of repeated customers and improving the customer loyalty. By maintaining attractive online contents and engaging online interaction, the Group's official WeChat account had attracted over 12 million followers by the end of 2018.

Furthermore, in 2018, the Group continued to upgrade its retail stores in phases by renovating the uniform visual designs and continued to design and establish creative theme retail stores, so as to enhance the brand image of Zhouheiya.

New Retail, E-Commerce and Online Ordering and Delivering Operation

The era of "new retail" has swiftly emerged across China in recent years, in which offline, online and logistics merge to create a dynamic new way of retailing, on the back of prevalence of various digital technologies, such as wireless Internet, mobile payment, artificial intelligence, and big-data analysis. To embrace the "new retail" revolution, the Group upholds its consumer-oriented strategy as it believes that the key success of a new retail operation is largely driven by customer experience and customer satisfaction.

The Group has endeavored to protect customer rights and enhance membership benefits. The Group's first flagship member store was opened in Wuhan in 2018 to showcase retail business innovations, which is featured with different appealing benefits and privileges, with an aim for a superior shopping experience for its loyal members. Unlike the traditional ones, the flagship member store is featured with its open exhibition of products. Other privileged customer experiences oriented features include clip doll machines, coffee machines and 24-hour vending machines and customized gift redemption.

The Group also introduced the first "smart store" with self-checkout in Shenzhen in 2018. Leveraging the advanced payment technologies supported by WeChat, customers are able to pay with facial recognition conveniently. The Group expects to explore and leverage more advanced technologies and measures in order to provide its customers with a unique shopping experience and to further carry out its smart retail strategy.

Moreover, the Group has established several other creative theme retail stores, including the Finless Porpoise Protection theme store in Wuhan, the E-sports theme store in Shenzhen, as well as the Zhouheiya-Ele.me Takeaway Experience store in Shanghai. These theme stores create particular consumption scenarios that link to the Group's products among particular customer groups and help quickly establish the Group's brand awareness.

In addition to these theme retail stores, the Group continued to expand its online ordering and delivering operations. It has established strong presence on approximately 22 domestic online marketplaces and local food ordering and delivery services platforms, currently available in 90 cities.

In addition to the local food ordering and delivery platforms, in 2018, the Group also developed its in-app mini-programs on WeChat to offer local food ordering and delivery services and deepened its cooperation with major domestic logistics service providers. Since the launch of those mini-programs in early 2018 till the end of the year, this mini-programs had fulfilled convenient delivery services for over 330,000 orders.

In 2018, the Group optimized its product mix distributed through online channels to increase the offering of vacuum packaged products, which enabled the Group to better control the transportation expenses, including the transportation expenses for packing materials.

System Upgrades and Big Data Strategies

The Group endeavored to strengthen its big-data strategy and establish a centralized information technology platform with collective and systematic procedural control and accounting functions to support the sustainable long-term growth. In 2018, certain regional subsidiaries of the Group have commenced to implement the SAP system, which enabled the front operations to be more flexible and adaptive to meet the challenges and opportunities arising from the new business environment in the future. Meanwhile, the Group also leveraged the advanced information technology system to reshape its digitalized operations. Moreover, the Group has consolidated the online and offline member databases which established the effective customer experience evaluation system, and allowed centralized management of a variety of members' privileged functions, such as membership benefits, prepayments, coupons and customer profiles and tags. Enhanced digital operation and management have provided a solid data support to facilitate the Group to achieve its precision marketing.

Industry and Business Outlook for 2019

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 2019, it intends to:

- Further penetrate existing markets and strategically expand into new regions, to improve operating efficiency by better allocating production capacity to match the needs from regional markets;
- Further enhance product innovation;
- Leverage big-data technologies to realize precision marketing strategy, and establish a effective membership system focusing on stickiness;
- Develop the result-driven incentive programs; and
- Enhance digital operations and data analysis, and further optimize organization and process.

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 2017 to 2018 (expressed in percentages).

	Year Ended December 31,				Year-on-year
	2018		2017		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Revenue	**3,211,521**	**100.0**	**3,248,943**	**100.0**	**(1.2)**
Cost of sales	**(1,364,089)**	**(42.5)**	(1,269,220)	(39.1)	7.5
Gross profit	**1,847,432**	**57.5**	**1,979,723**	**60.9**	**(6.7)**
Other income and gains, net	**147,143**	**4.6**	109,737	3.4	34.1
Selling and distribution expenses	**(1,081,576)**	**(33.7)**	(947,990)	(29.2)	14.1
Administrative expenses	**(178,707)**	**(5.6)**	(142,056)	(4.4)	25.8
Share of losses of an associate	**(7,321)**	**(0.2)**	—	—	N.A.
Profit before tax	**726,971**	**22.6**	**999,414**	**30.7**	**(27.3)**
Income tax expense	**(186,878)**	**(5.8)**	(237,786)	(7.3)	(21.4)
Profit for the year	**540,093**	**16.8**	**761,628**	**23.4**	**(29.1)**
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	—
Reclassification adjustments for gains and losses included in the profit or loss - gains on disposal, net of tax	**—**	**—**	(1,425)	(0.0)	—
Exchange differences on translation of foreign operations	**84,363**	**2.6**	(149,693)	(4.6)	(156.4)
Other comprehensive income for the year, net of tax	**84,363**	**2.6**	(149,693)	(4.6)	(156.4)
Total comprehensive income for the year	**624,456**	**19.4**	**611,935**	**18.8**	**2.0**
Basic and diluted earnings per share (RMB)	**0.23**	**N.A.**	0.32	N.A.	(28.1)

Revenue

The Group's total revenue decreased by approximately 1.2% from RMB3,248.9 million for the year ended December 31, 2017 to RMB3,211.5 million for the year ended December 31, 2018, which was primarily due to a decrease of RMB41.8 million in revenue derived from online channels, and a decrease of RMB23.0 million in revenue derived from distributors, each a result of intensified competition the Group encountered. The decreases were partially offset by an increase of RMB21.6 million in revenue derived from self-operated retail stores.

Revenue contributed by the Group's self-operated retail stores amounted to RMB2,776.4 million, representing approximately 86.5% of total revenue for the year ended December 31, 2018, compared with RMB2,754.8 million, representing approximately 84.8% for the year ended December 31, 2017.

Sales through online food ordering and delivery services platforms increased significantly by approximately 34.3% from 2017 to 2018, which accounted for approximately 13.7% of revenue derived from self-operated retail stores for the year ended December 31, 2018, compared with approximately 10.3% for the year ended December 31, 2017.

In 2018, the Group's e-commerce experienced intensified competition, which resulted in a decrease of revenue derived from the online channels by approximately 12.1% from RMB344.5 million for the year ended December 31, 2017 to RMB302.7 million for the year ended December 31, 2018.

Cost of Sales

Cost of sales increased by approximately 7.5% from RMB1,269.2 million for the year ended December 31, 2017 to RMB1,364.1 million for the year ended December 31, 2018, which was mainly attributable to the increase in the cost of raw materials, including packaging materials, the increases in depreciation of equipment and facilities and utilities, in particular in connection with the northern China processing facility located in Hebei, and the overall increase in labor cost.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit decreased by 6.7% from RMB1,979.7 million for the year ended December 31, 2017 to RMB1,847.4 million for the year ended December 31, 2018.

Due to the continuous increases in cost of raw materials, the Group's gross profit margin decreased from 60.9% for the year ended December 31, 2017 to 57.5% for the year ended December 31, 2018.

Other Income and Gains, Net

The Group's other income and gains, net increased by approximately 34.1% from RMB109.7 million for the year ended December 31, 2017 to RMB147.1 million for the year ended December 31, 2018. The increase was primarily due to: (i) an increase of RMB25.0 million in interest income from bank deposits, other interest income from financial assets at FVPL and other interest income from structure deposits measured at FVPL, (ii) an increase of RMB13.3 million in government grants, and (iii) a decrease of RMB8.8 million of a loss on disposal of property, plant and equipment, partially offset by (i) a decrease of RMB8.4 million in foreign exchange gain, and (ii) a fair value loss on derivative instruments of RMB4.0 million in 2018.

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 14.1% from RMB948.0 million for the year ended December 31, 2017 to RMB1,081.6 million for the year ended December 31, 2018, primarily due to the significant expansion of retail store network, which resulted in the increases in the associated rental expenses, increasing advertising and promoting related expenses, as well as the transportation expense resulting from geographic expansion.

Administrative Expenses

The Group's administrative expenses increased by approximately 25.8% from RMB142.1 million for the year ended December 31, 2017 to RMB178.7 million for the year ended December 31, 2018, primarily due to (i) an increase in salary and welfare for the Group's general and administrative personnel as the Group's increased headcounts to support its business growth, (ii) the increase in expenses of relating to the hardware and software due to the launch of SAP system, and (iii) an increase in the management expenses of in connection with the commencement of operation of Hebei Zhou Hei Ya Foods Industrial Park Co., Ltd. in April 2018.

Shares of Losses of an Associate

In 2018, the Group incurred shares of losses of an associate resulting from the administrative related expenses at its early stage of RMB7.3 million in connection with the 50% equity interest in Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) (深圳市天圖興南投資合夥企業 (有限合夥)) (the "**Tiantu Partnership**"), which was jointly established with two subsidiaries of Shenzhen Tiantu Investment Co., Ltd. (深圳市天圖投資管理股份有限公司).

Profit Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB727.0 million for the year ended December 31, 2018, decreased by approximately 27.3% from RMB999.4 million for the year ended December 31, 2017.

Income Tax Expense

Income tax expense decreased by approximately 21.4% from RMB237.8 million for the year ended December 31, 2017 to RMB186.9 million for the year ended December 31, 2018, primarily due to the decrease in profit before tax.

Profit for the Year

As a result of the foregoing, especially due to the higher cost of sales, in particular increasing raw material cost, and the decrease in total revenue, the Group's net profit decreased by approximately 29.1% from RMB761.6 million for the year ended December 31, 2017 to RMB540.1 million for the year ended December 31, 2018. As a result of the above-mentioned rising cost of sales, the increasing expenses mainly in connection with the significant expansion of retail store network, the launch of the SAP system and the commencement of operation of Hebei Zhou Hei Ya Foods Industrial Park Co., Ltd., net profit margin decreased from 23.4% in the year ended December 31, 2017 to 16.8% in the year ended December 31, 2018.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations changed from other comprehensive loss of RMB149.7 million for the year ended December 31, 2017 to other comprehensive gain of RMB84.4 million for the year ended December 31, 2018, primarily represented the foreign exchange gain 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, 2018 increased by 2.0% to RMB624.5 million from RMB611.9 million for the year ended December 31, 2017.

Liquidity and Capital Resources

In the year ended December 31, 2018, the Group financed its operations primarily through cash generated from its business operations and the net proceeds received from its Initial Public Offering (including the exercise of the over-allotment options on November 30, 2016) (the "**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, 2018, the Group had net assets of approximately RMB4,125.7 million, as compared to RMB4,000.7 million as of December 31, 2017, primarily comprising current assets of RMB2,880.0 million, non-current assets of approximately RMB1,776.1 million, current liability of RMB482.2 million and non-current liability of approximately RMB48.2 million.

Cash and Bank

As compared with RMB2,039.2 million as of December 31, 2017, which was consisted of cash and cash equivalents of approximately RMB98.7 million and term deposits approximately 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), the Group had cash and bank of approximately RMB1,671.1 million as of December 31, 2018, which was consisted of unrestricted cash and bank balances of approximately RMB106.0 million and term deposits of RMB1,565.1 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 has adopted related policies to hedge part of its 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 IPO

Net proceeds from the IPO, 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. The remaining balance of the proceeds from the IPO as of December 31, 2017 was RMB2,001.2 million.

The table below sets forth the use of proceeds by the Group as of December 31, 2018:

	Budget	Amount that had been utilized as of December 31, 2018	Remaining balance as of December 31, 2018
		(In RMB million)	
Construction and improvement of processing facilities	858.3	765.2	93.1
Development of retail store network	367.8	71.7	296.1
Brand image campaigns, including the e-commerce marketing campaigns	294.3	73.8	220.5
Improvement of research and development	245.2	11.5	233.7
Acquisition and strategic alliances	245.2	17.9	227.3
Upgrades of information technology systems, including the enterprise resource planning system	196.2	38.7	157.5
General replenishment of working capital	245.2	138.0	107.2
Total	2,452.2	1,116.8	1,335.4

As of December 31, 2018, net proceeds not utilized had been deposited into short-term deposits and money market instruments, including structured deposits. There has been no change to the intended use of net proceeds as previously disclosed in the prospectus of the Company. The proceeds were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the prospectus of the Company dated November 1, 2016.

Indebtedness

As of December 31, 2018, 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, 2018, 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, 2018, net cash generated from operating activities decreased to approximately RMB308.4 million from RMB640.7 million for the year ended December 31, 2017, which was mainly attributable to profit before tax of RMB730.5 million, adjusted for certain non-cash items such as depreciation and amortization, interest income from bank deposits and interest income from structured deposits. Additional factors that affected net cash generated from operating activities included (i) income tax paid of RMB225.8 million, (ii) an increase of RMB95.3 million in inventories mainly resulting from the overall price increase of raw materials and the increase of inventory reserves of certain major raw materials, (iii) an decrease of RMB33.5 million in other payables and accruals, and (iv) an increase in pre-payments, deposits and other receivables of RMB50.3 million.

For the year ended December 31, 2018, net cash generated from investing activities was approximately RMB51.3 million, compared with net cash used in investing activities of RMB320.9 million for the year ended December 31, 2017, which was mainly attributable to proceeds from disposal of structured deposits of RMB2,745.2 million, and the decrease of term deposits of maturity over three months of RMB311.4 million, and the interests received from bank deposits of RMB46.5 million partially offset by purchases of structured deposits of RMB2,408.2 million, purchases of financial assets as fair value through profit or loss of RMB380.0 million, and the contribution to investments in Tiantu Partnership of RMB250.0 million.

For the year ended December 31, 2018, net cash used in financing activities was to approximately RMB499.4 million, which was mainly attributable the purchase of 65,412,000 issued Shares for the purpose of the Company's restricted share unit scheme in the amount of RMB263.5 million the Company paid to a designated trustee, and the dividends paid of RMB235.9 million compared with the cash used in financing activities of RMB219.3 million for the year ended December 31, 2017.

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, 2018, the Group had a balance of structured deposits in the amount of approximately RMB626.8 million. Up to the date of this announcement, approximately RMB345.4 million out of the RMB626.8 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, 2018, interest income from structured deposits amounted to RMB45.4 million (December 31, 2017: approximately RMB26.9 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 RMB492.0 million as of December 31, 2018, mainly in connection with the upgrades of its production lines, the improvement of its processing facilities, and the establishment and launch of the SAP system. 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, 2018, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against it.

Major Investment

In March 2018, one of the Group's indirect wholly-owned subsidiary entered into a partnership agreement with two subsidiaries of Shenzhen Tiantu Investment Co., Ltd. (深圳市天圖投資管理股份有限公司) to jointly establish Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) (深圳市天圖興南投資合夥企業 (有限合夥)) (the "Partnership") with a total size of RMB3.0 billion in Shenzhen, of which the Group subscribed for RMB500.0 million. As of the date of this report, the Group had made the full payment for its initial capital contribution of RMB250.0 million, which were funded from its operations. The Tiantu Partnership is expected to serve an investment platform to primarily explore investment opportunities related to consumption upgrade and new retail. Please refer to the announcement of the Company dated March 12, 2018 for more details.

Other than the Partnership, for the year ended December 31, 2018 and up to March 27, 2019, being the date of this announcement, the Group did not conduct any other material investments, acquisitions or disposals.

Restricted Share Unit Scheme

The Company adopted its Restricted Share Unit Scheme (the "**RSU Scheme**") on July 25, 2018. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of the Group for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests of the Company. The Board has the power to administer the RSU Scheme. The Board may, from time to time and at its sole discretion, select any eligible person, as defined in the RSU Scheme, to participate in the RSU Scheme and determine the number of Shares to be granted and the terms and conditions of the grant.

The Company utilized a total consideration of approximately HK$300.0 million and instructed a trustee to purchase its shares on market. The Shares so purchased will be used as awards for the participants in the RSU Scheme. During the period from August 31, 2018 to October 24, 2018, a total number of 65,412,000 Shares were purchased and held by the designated trustee.

As of the date of this announcement, no RSU has been awarded to any participant pursuant to the RSU Scheme.

Please refer to the Company's announcements dated July 25, July 31 and October 24, 2018 for a detailed summary of its RSU Scheme.

Turnover Ratios

Average inventory turnover days increased from 64.5 days in 2017 to 78.1 days in 2018, primarily because the Group increased the inventory reserves of certain major raw materials.

Average trade receivables turnover days increased from 1.8 days in 2017 to 3.2 days in 2018, primarily because certain retail stores, mainly certain transport hub stores, and certain distributors retained a relatively longer payment settlement terms after the contract renewal in 2018.

Average trade payables turnover days slightly decreased from 23.9 days in 2017 to 22.6 days in 2018.

Employee and Labor Cost

As of December 31, 2018, the Group had a total of 5,148 employees, among which approximately 55.8% were retail store operations and sales staff and 16.2% 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 accomplished, 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, 2018, the Group incurred total labor costs of RMB464.0 million, representing approximately 14.4% of total revenue of the Group.

The Company adopted its Restricted Share Unit Scheme (the "RSU Scheme") on July 25, 2018, please refer to "—Restricted Share Unit Scheme" for more details.

Top Suppliers and Top Customers

For the year ended December 31, 2018, purchases from the Group's largest duck supplier in terms of dollar amount accounted for approximately 9.5% of total purchase cost and the aggregate purchases from its top five duck suppliers in terms of dollar amount in aggregate accounted for approximately 24.7% of total purchase cost.

Due to the nature of the Group's business, for the year ended December 31, 2018, revenue derived from its top five customers accounted for less than 30% of total revenue.

Reserves

As of December 31, 2018, the Group's reserves available for distribution to shareholders of the Company amounted to approximately RMB2,214.8 million.

Subsequent Events

Subsequent to December 31, 2018 and up to March 27, 2019, being the date of this announcement, no material events were undertaken by the Group.

FINANCIAL INFORMATION

The audited consolidated annual results of the Group for the year ended December 31, 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	**2018**	2017
		RMB'000	**RMB'000**
REVENUE	3	**3,211,521**	3,248,943
Cost of sales		**(1,364,089)**	(1,269,220)
Gross profit		**1,847,432**	1,979,723
Other income and gains, net	3	**147,143**	109,737
Selling and distribution expenses		**(1,081,576)**	(947,990)
Administrative expenses		**(178,707)**	(142,056)
Share of losses of an associate		**(7,321)**	—
PROFIT BEFORE TAX	4	**726,971**	999,414
Income tax expense	5	**(186,878)**	(237,786)
PROFIT FOR THE YEAR		**540,093**	761,628
Attributable to:			
Owners of the parent		**540,093**	761,628
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
Reclassification adjustments for gains and losses included in profit or loss – gains on disposal, net of tax		**—**	(1,425)
Exchange differences:			
Exchange differences on translation of foreign operations		**84,363**	(149,693)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**84,363**	(149,693)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**624,456**	611,935
Attributable to:			
Owners of the parent		**624,456**	611,935
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted (RMB)		**0.23**	0.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018	2017
		RMB'000	**RMB'000**
NON-CURRENT ASSETS			
Property, plant and equipment		**1,189,966**	839,028
Prepaid land lease payments		**128,898**	111,467
Prepayments		**49,404**	40,288
Rental deposits		**83,221**	70,459
Other intangible assets		**35,184**	7,962
Investments in an associate	8	**242,679**	—
Deferred tax assets		**46,726**	31,410
Total non-current assets		**1,776,078**	1,100,614
CURRENT ASSETS			
Inventories		**343,734**	248,435
Trade receivables	9	**30,866**	25,506
Prepayments, other receivables and other assets	10	**200,524**	1,108,512
Due from the Controlling Shareholders		**2,294**	1,801
Structured deposits	11	**626,756**	—
Available-for-sale investments		**—**	30,000
Restricted cash		**4,000**	14,911
Cash in transit		**760**	3,489
Cash and bank		**1,671,093**	2,039,166
Total current assets		**2,880,027**	3,471,820
CURRENT LIABILITIES			
Trade payables	12	**85,066**	86,301
Other payables and accruals		**328,826**	347,281
Government grants, current		**1,455**	902
Income tax payable		**66,874**	96,263
Total current liabilities		**482,221**	530,747
NET CURRENT ASSETS		**2,397,806**	2,941,073
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,173,884**	4,041,687
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,821**	4,076
Government grants, non-current		**38,356**	36,938
Total non-current liabilities		**48,177**	41,014
NET ASSETS		**4,125,707**	4,000,673
EQUITY			
Equity attributable to owners of the parent			
Share capital		**16**	16
Treasury shares		**(263,525)**	—
Reserves		**4,389,216**	4,000,657
TOTAL EQUITY		**4,125,707**	4,000,673

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").

2.1 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 financial assets at fair value through profit or loss and structured deposits 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 new and revised HKFRSs for the first time for the current year's financial statements

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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

Except for the Amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement		Re-			HKFRS 9 measurement	
	Notes	Category	Amount	classification	ECL	Other	Amount	Category
Financial assets								
Structured deposits		N/A	–	962,000	–	–	962,000	FVPL[1]
From:								
Financial assets included in prepayments, other receivables and other assets	(i)	L&R2	967,888	(962,000)	–	–	5,888	AC[3]
Financial assets at fair value through profit or loss		N/A	–	30,000	–	–	30,000	FVPL
From:								
Available-for-sale investments	(ii)	AFS4	30,000	(30,000)	–	–	–	N/A
Trade receivables		L&R	25,506	–	–	–	25,506	AC
Rental deposits		L&R	70,459	–	–	–	70,459	AC
Due from the Controlling Shareholders		L&R	1,801	–	–	–	1,801	AC
Restricted cash		L&R	14,911	–	–	–	14,911	AC
Cash in transit		L&R	3,489	–	–	–	3,489	AC
Cash and bank		L&R	2,039,166	–	–	–	2,039,166	AC
			3,153,220	–	–	–	3,153,220	
Other assets								
Deferred tax assets			31,410	–	–	–	31,410	
			31,410	–	–	–	31,410	
Total assets			4,572,434	–	–	–	4,572,434	
Financial liabilities								
Trade payables		AC	86,301	–	–	–	86,301	AC
Financial liabilities included in other payables and accruals		AC	98,722	–	–	–	98,722	AC
			185,023	–	–	–	185,023	
Other liabilities								
Deferred tax liabilities		AC	4,076	–	–	–	4,076	AC
			4,076	–	–	–	4,076	
Total liabilities			571,761	–	–	–	571,761	

1 FVPL: Financial assets at fair value through profit or loss

2 L&R: Loans and receivables

3 AC: Financial assets or financial liabilities at amortised cost

4 AFS: Available-for-sale investments

Notes:

(i) The Group has classified its structured deposits included in prepayments, other receivables and other assets as structured deposits measured at fair value through profit or loss as these structured deposits did not pass the contractual cash flow characteristics test in HKFRS 9.

(ii) The Group has classified its available-for-sale investments as financial assets measured at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in HKFRS 9.

Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment loss for financial assets by replacing HKAS 39's incurred approach with a forward-looking expected credit loss (ECL) approach. HKFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The adoption of the ECL approach requirements of HKFRS 9 has had no impact on the Group's financial statements.

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 3 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The adoption of HKFRS 15 has had no impact on the Group's financial statements.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3. REVENUE, OTHER INCOME AND GAINS, NET

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

	2018	2017
	RMB'000	RMB'000
Type of goods		
Vacuum-packaged products	290,280	291,640
Modified-Atmosphere-Packaged products	2,888,699	2,933,732
Other products	32,542	23,571
Total revenue from contracts with customers	3,211,521	3,248,943

The timing of the above revenue recognition is when the performance obligation of sales and delivery of goods are satisfied at a point in time.

	2018	2017
	RMB'000	RMB'000
Other income and gains, net		
Government grants*	52,479	39,131
Interest income from bank deposits	49,791	42,402
Other interest income from financial assets at FVPL	962	—
Other interest income from structured deposits measured at FVPL	45,444	—
Interest income from structured deposits	—	26,860
Interest income from available-for-sale investments	—	1,900
Loss on disposal of items of property, plant and equipment	(6,316)	(15,092)
Gain on foreign exchange	2,732	11,147
Fair value loss on derivative instruments	(4,032)	—
Others	6,083	3,389
Total	147,143	109,737

* 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):

	2018	2017
	RMB'000	RMB'000
Cost of inventories sold	**1,138,983**	1,055,202
Depreciation of property plant and equipment	**80,630**	56,526
Amortisation of prepaid land lease payments	**1,052**	1,229
Amortisation of other intangible assets	**4,119**	2,371
Auditor's remuneration	**2,180**	2,230
Minimum lease payments under operating leases in respect of stores and plant premises	**398,974**	303,538
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**372,967**	356,659
Pension scheme contributions	**63,515**	52,335
Other welfare	**27,537**	24,189
Advertising and promotion expenses	**75,601**	60,158
E-commerce and online ordering platform related service and delivery fees	**144,106**	154,005
Fuel cost	**19,556**	17,929
Utility expenses	**41,856**	35,213
Share of losses of an associate	**7,321**	—
Loss on disposal of items of property, plant and equipment	**6,316**	15,092
Gain on foreign exchange	**(2,732)**	(11,147)
Fair value loss on derivative instruments	**4,032**	—
Interest income from bank deposits	**(49,791)**	(42,402)
Other interest income from financial assets at FVPL	**(962)**	—
Other interest income from structured deposits measured at FVPL	**(45,444)**	—
Interest income from available-for-sale investments	**—**	(1,900)
Interest income from structured deposits	**—**	(26,860)
Transportation expenses	**72,244**	72,742

5. **INCOME TAX**

The major components of income tax expenses are as follows:

	2018	2017
	RMB'000	RMB'000
Current income tax in PRC	**196,449**	238,551
Deferred tax	**(9,571)**	(765)
Total tax charge for the year	**186,878**	237,786

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% (2017: 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 8.25% (2017: 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**

	2018	2017
	RMB'000	RMB'000
Dividends declared	**326,174**	231,095

The board has recommended the payment of a final dividend of HK$0.16 (equivalent to RMB0.14) per ordinary share for the year ended 31 December 2018, representing a total payment of approximately RMB326,174,000, including RMB8,953,000 of dividend attributable to the repurchased shares held by the trustee of the Group for future incentive scheme, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 2018 and 2017.

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**540,093**	761,628
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,363,155,140**	2,383,140,500
Earnings per share:		
Basic and diluted (RMB)	**0.23**	0.32

8. INVESTMENTS IN AN ASSOCIATE

	2018 RMB'000 (audited)	2017 RMB'000 (audited)
Share of net assets	**242,679**	—

Particulars of the Company's material associate are as follows:

Name	Place incorporation	Percentage of voting power	Principal activities
Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) ("Shenzhen Tiantu Xingnan")	China	40	Investment fund

In March 2018, the Group, through an indirect wholly-owned subsidiary, entered into a partnership agreement with Shenzhen Tiantu Capital Management Centre (Limited Partnership) and Shenzhen Tiantu Xing'an Investment Enterprise (Limited Partnership) to jointly form Shenzhen Tiantu Xingnan, an investment fund, as a limited partner with an initial subscription amount of RMB500,000,000, representing 50% of the total initial subscription amount of this fund. The Group has contributed RMB250,000,000 as of 31 December 2018.

9. TRADE RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Trade receivables	**30,866**	25,506
Less: Impairment provision	**—**	—
	30,866	25,506

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 loss allowance, is as follows:

	2018	2017
	RMB'000	RMB'000
Within 3 months	**30,866**	25,506
Over 3 months	**—**	—
	30,866	25,506

The Group applies the simplified approach to provide for expected credit losses prescribed in HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of the trade receivables to measure the expected credit losses. As all of the receivables were neither past due nor impaired and relate to diversified customers for whom there was no recent history of default and there has not been a significant change in credit quality, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances.

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018	2017
	RMB'000	RMB'000
Prepaid rents	**88,081**	71,787
Advances to employees	**3,743**	2,671
Advances to suppliers	**8,999**	6,869
Deductible input VAT	**68,502**	41,685
Current portion of prepaid land lease payments	**2,826**	2,417
Structured deposits	**—**	962,000
Others	**28,373**	21,083
	200,524	1,108,512

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.

11. STRUCTURED DEPOSITS

	2018	2017
	RMB'000	RMB'000
Other unlisted investments, at fair value	**626,756**	—

The above unlisted investments at 31 December 2018 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

12. 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:

	2018	2017
	RMB'000	RMB'000
Within 3 months	**84,104**	84,807
3 to 6 months	**284**	844
Over 6 months	**75**	30
Over 12 months	**603**	620
	85,066	86,301

The trade payables are non-interest-bearing.

OTHER INFORMATION

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Other than the purchase of Shares through a designated trustee which will be used as awards under the Company's RSU Scheme, 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, 2018. The Company adopted its RSU Scheme on July 25, 2018, please refer to "—Restricted Share Unit Scheme" for more details.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HKD0.16 per share (adopting an exchange rate of HK$1=RMB0.8554, equivalent to RMB0.14 per share) and payable in Hong Kong dollars, amounting to approximately a total of RMB326,174,000 for the year ended December 31, 2018 (the "**2018 Final Dividend**"), representing approximately 60% of our net profit for the year ended December 31, 2018. The 2018 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, 2019.

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 27, 2019 to Friday, May 31, 2019 (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 Friday, May 31, 2019, 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 24, 2019.

Subject to the approval of the declaration of the 2018 Final Dividend at the forthcoming AGM, the register of members of the Company will also be closed from Thursday, June 6, 2019 to Monday, June 10, 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed 2018 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 5, 2019. The 2018 Final Dividend, if approved by the Company's shareholders at the forthcoming AGM, will be paid on or about Monday, June 24, 2019 to those shareholders whose name appear on the register of member of the Company on Thursday, June 6, 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended December 31, 2018, 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**").

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, 2018.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the Model 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, 2018. 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, 2018 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 27, 2019

As at the date of this announcement, Mr. Zhou Fuyu, Mr. Hao Lixiao, Ms. Li Ying, Mr. Wen Yong and Mr. Hu Jiaqing are the executive Directors; Mr. Pan Pan is the non-executive Director; and Mr. Wu Chi Keung, Mr. Chan Kam Ching, Paul and Mr. Lu Weidong are the independent non-executive Directors.