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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1458)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		Period-over-Period
	2021	2020	Change
	RMB'000	RMB'000	%
Revenue	**1,452,972**	903,470	60.8
Gross profit	**857,207**	492,928	73.9
Profit/(loss) before tax	**318,638**	(51,531)	718.3
Profit/(loss) for the period attributable to owners of the Company	**229,556**	(42,194)	644.0

OPERATIONAL HIGHLIGHTS

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

	Six Months Ended June 30,	
	2021	**2020**
Total number of retail stores	**2,270**	1,367
Total sales volume (tons)	**17,762**	10,454
Average spending per purchase order of retail stores (RMB)	**60.90**	60.53

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

	Six Months Ended June 30,			
	2021		**2020**	
	RMB'000	%	RMB'000	%
Ducks and duck part products	**1,271,302**	**87.5**	789,735	87.4
Other products[(1)]	**170,305**	**11.7**	111,794	12.4
Franchise fees[(2)]	**11,365**	**0.8**	1,941	0.2
Total revenue	**1,452,972**	**100.0**	903,470	100.0

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

(2) Include revenue generated from franchisees in connection with upfront franchise fees and brand royalty fees, and exclude revenue from sales of products to franchisees.

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

	Six Months Ended June 30,			
	2021		**2020**	
	RMB'000	%	RMB'000	%
Self-operated retail stores[(1)]	**897,220**	**61.8**	609,090	67.4
Online channels	**255,341**	**17.6**	238,707	26.4
Franchisees[(2)]	**238,925**	**16.4**	16,089	1.8
Others[(3)]	**61,485**	**4.2**	39,584	4.4
Total revenue	**1,452,972**	**100.0**	903,470	100.0

(1) Include 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 20.3% and 16.2% of the revenue from self-operated retail stores in the six months ended June 30, 2021 and 2020, respectively.

(2) Primarily include revenue generated from franchisees in connection with sales of products, upfront franchise fees and brand royalty fees.

(3) Primarily arises from the revenue of distributors.

The board (the "**Board**") of directors (the "**Directors**") of Zhou Hei Ya International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results (the "**Interim Results**") of the Company and its subsidiaries (the "**Group**") for the six months ended June 30, 2021. The Interim Results have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the Interim Results have also been reviewed by the audit committee of the Company (the "**Audit Committee**").

BUSINESS OVERVIEW AND OUTLOOK

Market Overview

In the first half of 2021, the COVID-19 pandemic continued to have an impact on the global economy. Although the COVID-19 pandemic in most parts of China has been brought under control, the pandemic situation in certain regions is still repetitive, and there is still some uncertainty about the future economic recovery. In the context of the normalization of the pandemic, China's macro-economy has been experiencing a K-shaped recovery but the marginal growth momentum is weakened. There is still pressure on the recovery of passenger flow in transportation hubs, and the impact is particularly severe during the Spring Festival this year, which still has an adverse impact on the offline consumer industry.

In the post-pandemic era, the consumer goods industry is facing various challenges, including the shift of consumption scenarios, the change of consumption habits and demand, which has a particularly obvious impact on the subsectors that focus on offline consumption scenarios and multi-process coordination in the industry chain. How to accelerate the online and offline integration, arrange diversified channels, identify the changes in consumer demand, strengthen the construction of product strength and improve operational efficiency will be the focuses of the development of participants in industries under the background of the prolonged pandemic.

The COVID-19 outbreak changed the way and habit of spending, while gave rise to challenges and opportunities for the development of the consumer industry at the same time. On the one hand, the size and stickiness of online consumption continue to increase, the process of online and offline integration are accelerating, and the boundaries between traditional retail and online retail are broken. On the other hand, spending differentiation and demand classification continued to create structural growth opportunities in the market in China, and there was accelerated differentiation of diversified consumer demands. If enterprises want to survive stably in the evolving market and improve their core competitiveness, they must understand and grasp the trend of the change of consumption habits and preferences with the impact of COVID-19. Only by making current, short-term and long-term business plans and continuously strengthening capacity building in line with the trend can an enterprise more calmly confront future challenges and uncertainties in the market and promote its long-term sustainable development.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

Retail Store Network Expansion

In the first half of 2021, the Group continued to further promote the "self-operation + franchise" business model with a particular focus to develop its franchise business. It actively increased the number of franchised stores, penetrated into untapped markets and further improved the store coverage rate in the territories. Meanwhile, the Group optimized the structure of stores, and improved the nationwide store network so as to meet the demand of consumers for impulsive and convenient buying.

As of June 30, 2021, the Group had a total of 2,270 stores, including 1,161 self-operated stores and 1,109 franchised stores, and now covering 212 cities in 26 provinces, autonomous regions and municipalities in China.

The table below sets forth a breakdown of the number of self-operated and franchised retail stores by geographic location and the revenue contribution for the periods indicated:

Number of Self-operated and Franchised Retail Stores

	Six Months Ended June 30,			
	2021		2020	
	#	%	#	%
Central China(1)	**1,062**	**46.8**	583	42.6
Southern China(2)	**417**	**18.4**	272	19.9
Eastern China(3)	**327**	**14.4**	221	16.2
Northern China(4)	**266**	**11.7**	178	13.0
Western China(5)	**198**	**8.7**	113	8.3
Total	**2,270**	**100.0**	1,367	100.0

Revenue Derived from Self-operated Retail Stores and Franchisees

	Six Months Ended June 30,			
	2021		2020	
	RMB'000	**%**	RMB'000	%
Central China(1)	**664,850**	**58.5**	315,225	50.5
Southern China(2)	**183,648**	**16.2**	127,479	20.4
Eastern China(3)	**118,618**	**10.4**	79,083	12.6
Northern China(4)	**99,271**	**8.7**	73,763	11.8
Western China(5)	**69,758**	**6.2**	29,629	4.7
Total	**1,136,145**	**100.0**	625,179	100.0

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

(2) Comprises Guangdong Province, Hainan Province and Fujian Province.

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

(4) Comprises Beijing, Tianjin, Liaoning Province, Hebei Province, Inner Mongolia Autonomous Region, Jilin Province, Shandong Province and Gansu Province.

(5) Comprises Chongqing, Sichuan Province, Shaanxi Province, Guizhou Province, Yunnan Province and Guangxi Zhuang Autonomous Region.

Continuous Implementation of Upgraded Six Development Strategies

In the first half of 2021, the COVID-19 pandemic in China was generally under control, but the consumer goods industry remained subject to great pressure and challenges due to the resurgence of COVID-19 in certain areas. The Group overcame the adverse impact of the sharp decrease in passenger flow during the Spring Festival in 2021, and continued to firmly implement the upgraded six development strategies, which paid off, with a quarter-on-quarter improvement in the overall operation. Meanwhile, the overall profitability of the Group was significantly improved, as a result of the strong development momentum of its franchise business, the simultaneous efforts in online and offline channels, the new product launch mechanism, and the integration and optimization of the supply chain system have achieved remarkable results, and the improvement of production and operation efficiency. The Group has always adhered to the operation philosophies of customer first, and long-termism. It continuously strengthened the corporate organization and management capabilities, improved operational efficiency, and business and organizational health have improved significantly, laying a solid foundation for a sustainable development in the future.

Upgrade of Business Model

With stringent requirements on product and store management for over 20 years, the Group has accumulated strong product and brand strengths, laying a solid foundation for the development of franchise business. After early model building, management exploration and structure construction, franchise business has expanded rapidly and steadily and becomes the backbone of corporate development. In the first half of 2021, the Group established a middle platform for retail business development, defined the strategy and development plan of "self-operation + franchise". It carried out unified management in six major regions in China, which further empowered the building of franchise capacity.

In the first half of 2021, the Group paid attention to the speed and quality of store expansion, and took various measures to support the development of "self-operation + franchise" business. The Group further improved its investment promotion mechanism to accurately select business partners and actively promote business opportunities. The Group upgraded the incentive mechanism for the store expansion team, and identified store locations with high-quality resource reserve, so as to improve the investment promotion and store expansion efficiency. Through the plans such as "community of common future", the Group encouraged franchisees to continuously open stores, so as to build good ecological cooperation relationships. In addition, the Group will continuously improve the quality of its stores and deepen the franchise capacity building. Leveraging the Company's self-operation experience of over 20 years, the Group has established a whole business chain management mechanism for franchise business, so as to comprehensively help the franchisees improve their store management capacity, whole business chain operation capacity and store development efficiency, achieving win-win results with the franchisees and being highly recognized by them.

With strong brand influence, the franchise model of the Group aroused the enthusiasm of franchisees for cooperation. As of June 30, 2021, the Group received a total number of over 38,000 franchisee applications. In the first half of 2021, there were 511 new franchised stores opened in 45 cities.

Omni-channel Coverage

The digital economy has given rise to a scenario revolution, with the continuous emergence of new online and offline spending scenarios. In line with the development trend of the new economy and new retail, the Group takes "freewheeling consumers, accessible products and ubiquitous scenarios" as its core strategy, and continuously implements the online and offline omni-channel sales model, with the support of digitization and intelligentization. While accelerating the opening of stores through the "self-operation + franchise" business model to increase the brand visibility among consumers, the Group actively makes arrangements for e-commerce, community fresh grocery, ordering and delivery services and other Internet O&O channels, so as to promote omni-channel consumer operation with online and offline linkage. For the six months ended June 30, 2021, there was a year-on-year growth of 29.5% in the contributions of the Group's Internet O&O business, i.e. the online and self-operated ordering and delivery businesses, to its revenue.

In the first half of 2021, the Group further developed the digitization and intelligentization capability and used the online channel as the digital empowerment center. On the one hand, the Group deeply tapped into the sales potential of online channels, actively made arrangements on live streaming platforms including Taobao, Tik Tok (抖音) and Kuaishou (快手). The Group actively promoted the construction of its own brand live streaming while participating in KOL live streaming sessions, which greatly increased the number of sales. On the other hand, the Group actively expanded new channels for near-field retail, so as to expand the reach to consumers. The Group established strategic cooperation with platforms including Pupu Supermarket (樸樸超市), Dingdong Maicai (叮咚買菜), Hema Supermarket (盒馬集市), and newly established its presence on online fresh grocery platforms including Meituan Shopping (美團買菜), Shihang Fresh (食行生鮮) and 7 Fresh (七鮮). In addition, in line with the trend of spending change, the Group deeply optimized the product design and positioning for new retail and community fresh grocery channels, and customized differentiated products that meet the spending habits in different channels, thus further improving the shopping experience and better supplementing the homes and planned consumer market that the current stores cannot reach.

In the first half of 2021, the Group continued to develop a professional ordering and delivery business team and to be deeply engaged in operations on mainstream ordering and delivery platforms, and strategically carried out delicacy operation and marketing promotion for the ordering and delivery business. Through multi-dimensional accurate analysis, the Group formulated activity plans suitable for different scenarios, carried out promotional events depending on time, scenario and product, and in a timely manner, adjusted the store promotion and pricing strategies on a weekly basis to promote in-store sales. The ordering and delivery business, as a new growth potential for offline stores, played a significant role in brand exposure enhancement, acquisition of new customers, revenue growth promotion, etc.

The Group is continuously improving diversified and multi-scenario channel construction to more rapidly and widely reach various consumer groups, and further enhances corporate risk tolerance capacity. Meanwhile, it keeps up with the spending trend of young consumers, meeting differentiated consumer demand better and enhancing shopping experience.

Product Diversification

The Group actively monitors the emerging spending trend, and has formulated a research, development and promotion mechanism for the life cycle of new products market-oriented, accelerated the launch of new product and optimized the product mix. Meanwhile, the Group phased out worst-performing products from the market to enhance the product vitality.

In the first half of 2021, the Group adjusted its new product strategy and accelerated the optimization of the product mix. With a focus on the innovation of key products and new flavors, the Group rapidly launched new best-selling products including "Deboned Duck Webs (去骨鴨掌)", "Marinated Chicken Feet (虎皮鳳爪)", "Spicy Shrimp Balls (香辣蝦球)", as well as new flavor series including "Multi-spiced (五香)" and "Treasure Lindera Glauca (寶藏山胡椒)", which were highly recognized in the market. In addition, the Group additionally offered products with low- and mid-end prices ranging from RMB9.9 to RMB25 to meet the differentiated needs of different consumer groups in different spending scenarios, further enhancing the product competitiveness. The Group continuously commenced cross-promotional events with various brands, which not only enhanced the brand visibility, but also expanded the group of customers who tasted the products of Zhou Hei Ya for the first time, so as to promote the sales with end consumers. In the first half of 2021, the Group successfully launched 16 key product series. Revenue contributed by new products amounted to over RMB250 million, representing a continuous increase in the proportion of total revenue. Revenue from new products accounted for approximately 20% of total revenue in the second quarter of 2021.

Integrated Branding and Marketing

In the first half of 2021, the Group continued to focus on its brand positioning of youth and fashion. It strengthened its brand image and positioning by adopting the new slogan "No appetite? Let's eat Zhou Hei Ya (沒滋味？就吃周黑鴨)", so as to be more relevant to users and products and to realize the extension from physical scenarios to psychological scenarios. Together with the gradual establishment of new image stores nationwide, this has accelerated to fresh the brand image.

The Group is continuously committed to implementing the integrated branding and marketing strategy which is product-oriented and driven by consumer demands. The Group unified monthly publicity themes, carried out large marketing activities for the Spring Festival, Labor Day and other holidays, strengthened the display and foretaste in stores, and enhanced advertisement in core locations of major cities. According to the integrated marketing model of AIPL (Awareness, Interest, Purchase and Loyalty), the Group increased its marketing investment in full-chain range, including storefronts located in places other than transport hubs, key franchise markets and ordering and delivery business, so as to ensure unified omni-channel marketing and improve the marketing efficiency in all aspects.

While increasing its marketing investment, the Group adopted a young and diversified marketing approach with a focus on brand positioning, so as to maximize the reach of interactive information. The Group reached in-depth cooperation with major internet platforms including Little Red Book (小紅書), Tik Tok (抖音), and Bilibili (嗶哩嗶哩) to increase marketing efforts and strengthen communication with young people. The Group established strategic cooperation relationships with top streamers and fully interacted with consumers through live streaming platforms. It was selected as the exclusive meat product partner of "Chinese Doctors", a main theme movie, so as to expand brand awareness, enhance brand value and effectively promote sales.

In the first half of 2021, the Group ranked among "China's 500 Most Valuable Brands" by the World Brand Lab again.

Supply Chain Optimization

In the first half of 2021, the Group continued to comprehensively promote the integrated supply chain strategy to establish an integrated supply chain center and build a supply chain system with an well-organized linkage between production, supply and sales. It strengthened the functions of the planning center and the purchase center to provide organizational support for building a flexible supply chain system. Through scientifically managing the entire supply chain process, it achieved overall cost control and efficiency optimization of the supply chain, resulting in an increase in gross profit margin.

The overall production arrangement of the Group is focused on five major processing facilities in China. The Group has established four processing facilities at a room cleanliness standard of 100,000-class with high automation in northern, eastern, southern and central China. The processing facility in western China under constructing was expected to be put into operation in 2022. The production capacity of each processing facility can be flexibly deployed and efficiently coordinated to cope with regional market risk.

The Group attached great importance to the cost control of the supply chain and made efforts to improve the production and purchase efficiency. In terms of purchase, the Group upgraded and optimized its purchase strategy and accurately estimated the demand, and provided a basis for purchase decision-making through professional methods and tools including supply-demand linkage and establishment of a price forecast model, and ensured a safe strategic inventory reserve. In terms of production, with the support of the upgrades to the established supply chain management system, the Group adopted a lean production management model and established an OCM (operating cost management) monthly monitoring and review mechanism for production costs, so as to carry out accurate calculation of production costs, continuously reduce the production costs while increasing efficiency.

In addition, the Group basically completed arrangements for nation-wide warehousing logistics routes, and realized the dynamic logistics network planning of the nation-wide logistics routes from trunk lines and branch lines to urban flexible distribution. The Group continuously reviewed and optimized the product distribution system including dynamic planning of distribution routes, carried out timely adjustment as needed, and reduced transportation costs while meeting omni-channel distribution demands, effectively improving the distribution efficiency. At present, 80% and 100% of the stores are able to deliver products within 24 hours and 48 hours, respectively, effectively extending product shelf life through reducing the transit time while enhancing consumer experience.

Organizational Capacity Enhancement

Strong organizational strength is the key element of supporting and implementing corporate strategies effectively. The Group continuously strengthened its organizational capacity building and updated its iterative organizational strategy system. The Group is committed to building a performance-oriented, streamlined and efficient organizational team. In the post-pandemic era and led by its highly professional management team, the Group is confident in catching up with the evolving trends and strengthening its organizational capacity establishment, so as to better face the market challenges and uncertainties in the future and to promote the sustainable and healthy development of the enterprise.

In terms of organizational capability, firstly, the Group further optimized its organizational structure, integrated and established the "retail business development center" and the "integrated marketing center", and optimized and upgraded its organizational structure for research and development, and marketing. Secondly, the Group actively introduced key talents, supplemented the professional talents at all levels, and established a solid and diversified team. It paid attention to improve the ability of talents, focused on promoting talent training, carried out various talent empowerment training including retail talent transformation projects, training projects for management team and professional trainees. It further strengthened the allocation of relevant professional talents, and enhanced talent transformation and reserve. Meanwhile, the Group continued to promote the organization and talent review at all levels, optimize the personnel structure, carry out comprehensive talent review, improve the personnel management, ranking and training systems, comprehensively enhance the organizational vitality, and improve the per capita efficiency.

In addition, in terms of organizational motivation, the Group has implemented diversified incentive plans. Firstly, the Group commenced the second equity incentive plan in the first half of 2021, up to present, a total of 160 selected persons have received a total of approximately 13,561,382 restricted share units. Pursuant to a 10-year rolling incentive scheme, equity incentives will be available to more excellent employees in the long term, so as to drive the sustainable development of the Group. Secondly, the Group provided various year-on-year growth incentive plans for front-line sales employees, promoted a healthy competition environment among regions and implemented multiple incentive mechanisms. The Group especially strengthened immediate incentives, so as to stimulate the enthusiasm of front-line employees and promote sales recovery and growth.

Industry and Business Outlook

Since the COVID-19 outbreak, despite the current plateauing of the overall pandemic prevention and control in China, there is resurgence in some regions, given that the COVID-19 virus has been constantly mutating lately. Furthermore, the pandemic in other countries is still spreading. It is unlikely to predict when the pandemic will fully end. Domestic consumer sentiment and offline passenger flow have not fully recovered yet. The retail industry will remain subject to challenges including a decline in physical store passenger flow, a change in consumption habits, consumption differentiation and demand classification. Facing the pressure of changes in the business environment, consumer goods enterprises need to adjust their development strategies immediately, accelerating the integration of the digital economy and the real economy, meeting the differentiated demands of the diversified consumption scenarios, and further enhance core competitiveness to respond to changes.

In this context, the Group overcame the adverse impact of the sharp decrease in passenger flow during the Spring Festival, and firmly implemented the upgraded six development strategies, with a quarter-on-quarter improvement in the overall operation and sound strategic improvements. In the medium and long term, the Group believes that the development prospect of the industry remains optimistic and there is room in the market for tapping and integration. Facing the challenges and opportunities from the prolonged pandemic, the Group will continue to increase stores, actively expand Internet O&O channel, make overall arrangement for community consumption scenarios, firmly implement the upgraded six development strategies, and spare no efforts to develop five core capabilities by continuously improving the management mechanism, deepening capacity building and strengthening the strength of the team, thus promoting a sustainable healthy development of the enterprise.

In the second half of 2021, the Group will continue to implement the upgraded six development strategies, deepen and promote the implementation of strategic measures:

- Accelerate the expansion of franchise business and continue to increase the store penetration;
- Deepen digitization and intelligentization, build a data center and support the omni-channel consumer management;
- Accelerate product innovation and support sales in diversified channels;
- Increase the whole business chain marketing investment to comprehensively improve the brand marketing efficiency;
- Integrate and upgrade the supply chain management system, further optimize the supply chain capacity, reduce costs and increase efficiency; and
- Continuously improve employee incentives and comprehensively enhance organizational motivation.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's unaudited consolidated statements of profits or loss and other comprehensive income in absolute amounts and as percentage of the Group's total revenue for the periods indicated, together with the change of the six months ended June 30, 2020 over the six months ended June 30, 2021 (expressed in percentages).

	For the six months ended June 30,				Period-over-Period Change
	2021		2020		
	RMB'000	%	RMB'000	%	%
Revenue	**1,452,972**	**100.0**	903,470	100.0	60.8
Cost of sales	**(595,765)**	**(41.0)**	(410,542)	(45.4)	45.1
Gross profit	**857,207**	**59.0**	492,928	54.6	73.9
Other income and gains, net	**92,745**	**6.4**	21,600	2.4	329.4
Finance cost	**(32,140)**	**(2.2)**	(17,104)	(1.9)	87.9
Selling and distribution costs	**(500,145)**	**(34.4)**	(461,507)	(51.1)	8.4
Administrative expenses	**(120,302)**	**(8.3)**	(81,310)	(9.0)	48.0
Share of profit/(loss) of an associate	**21,273**	**1.5**	(6,138)	(0.7)	(446.6)
Profit/(loss) before tax	**318,638**	**21.9**	(51,531)	(5.7)	(718.3)
Income tax (expense)/credit	**(89,082)**	**(6.1)**	9,337	1.0	(1,054.1)
Profit/(loss) for the period	**229,556**	**15.8**	(42,194)	(4.7)	(644.0)
Basic earning/(loss) per share	**0.10**		(0.02)		600.0
Net profit/(loss) margin		**15.8**		(4.7)	
OTHER COMPREHENSIVE (EXPENSE)/INCOME					
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods:					
Exchange difference on translation of foreign operations	**3,215**	**0.2**	(7,201)	(0.8)	(144.6)
Net other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent period	**3,215**	**0.2**	(7,201)	(0.8)	(144.6)

	For the six months ended June 30,				Period-over-Period Change
	2021		2020		
	RMB'000	**%**	RMB'000	%	%
Other comprehensive (expense)/income that will not be reclassified to profit or loss in subsequent periods:					
Translation from functional currency to presentation currency	**(9,620)**	**(0.7)**	32,618	3.6	(129.5)
Net other comprehensive (expense)/income that will not be reclassified to profit or loss in subsequent periods	**(9,620)**	**(0.7)**	32,618	3.6	(129.5)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD, NET OF TAX	**(6,405)**	**(0.4)**	25,417	2.8	(125.2)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**223,151**	**15.4**	(16,777)	(1.9)	(1,430.1)
Total comprehensive income/(expense) for the period attributable to the owners of the Company	**223,151**	**15.4**	(16,777)	(1.9)	(1,430.1)

Revenue

The Group's total revenue increased by approximately 60.8% from RMB903.5 million for the six months ended June 30, 2020 to RMB1,453.0 million for the six months ended June 30, 2021, primarily due to the comprehensive increase in sales income from all channels, which was a result of the Group's continuous effective implementation of the six development strategies when the COVID-19 pandemic was generally under control in China and consumption demand gradually recovered in the first half of 2021. In particular, in the six months ended June 30, 2021, sales derived from franchisees increased by approximately 1,385.0% from the corresponding period in 2020.

Cost of Sales

Cost of sales increased by approximately 45.1% from RMB410.5 million for the six months ended June 30, 2020 to RMB595.8 million for the six months ended June 30, 2021, primarily due to the overall increase in sales, resulting from the general recovery of overall economy and consumption needs in the first half of 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing and a series of optimization measures of integrating supply chain, the Group's gross profit increase by 73.9% from RMB492.9 million for the six months ended June 30, 2020 to RMB857.2 million for the six months ended June 30, 2021. The Group's gross profit margin increased from 54.6% for the six months ended June 30, 2020 to 59.0% for the six months ended June 30, 2021.

Other Income and Gains, Net

The Group's net other income and gains increased by 329.4% from RMB21.6 million for the six months ended June 30, 2020 to RMB92.7 million for the six months ended June 30, 2021, mainly due to (i) an increase of RMB4.8 million in interest income from bank deposits; (ii) an increase of RMB18.2 million in foreign exchange gain; (iii) an increase of RMB47.3 million in gains from disposal of property and plant; (iv) an increase of RMB23.0 million in interest income from wealth management products and fair value gain; and (v) a decrease of RMB11.5 million in donation expense, partially offset by the loss of RMB29.6 million on changes in the fair values of convertible bonds.

Finance Cost

The finance costs of the Group increased by 87.9% from RMB17.1 million for the six months ended June 30, 2020 to RMB32.1 million for the six months ended June 30, 2021, mainly attributable to an increase in interest expense in connection with the convertible bonds.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately 8.4% from RMB461.5 million for the six months ended June 30, 2020 to RMB500.1 million for the six months ended June 30, 2021. The increase was mainly due to an increase in the salary and benefits for sales personnel, commissions for online sales channels, and the advertising and marketing expenses in connection with the Group's store network, which was generally in relation to the acceleration of the business operation of the Group as a result of the gradual recovery of consumer demand due to the control of the COVID-19 pandemic during the year.

Administrative Expenses

The Group's administrative expenses increased by approximately 48.0% from RMB81.3 million for the six months ended June 30, 2020 to RMB120.3 million for the six months ended June 30, 2021. The increase was mainly due to (i) the increase in labor costs of administrative staff resulting from the expansion of equity incentive scheme and the reduction of preferential policies on social security during the pandemic; and (ii) the increase in administrative expenses in relation to the processing facility in Jiangsu, which was put into operation by the Group in the first half of 2021.

Shares of Profit/Loss of an Associate

For the six months ended June 30, 2021, the Group recorded shares of profit of an associate of RMB21.3 million in connection with the equity interest in Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) (the "**Tiantu Partnership**"), resulting from fair value gains on the associate's investees and partially net off by the administration expenses of the associate.

Profit/Loss Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB318.6 million for the six months ended June 30, 2021, compared to a loss before tax of RMB51.5 million for the six months ended June 30, 2020.

Income Tax Expense/Credit

The Group incurred income tax expense of RMB89.1 million for the six months ended June 30, 2021, compared to a negative RMB9.3 million for the six months ended June 30, 2020, as a result of the profit incurred in such period.

Profit/Loss for the Period

As a result of the foregoing, the Group recorded net profit of RMB229.6 million for the six months ended June 30, 2021, as compared to a net loss of RMB42.2 million for the six months ended June 30, 2020.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations was a loss of RMB6.4 million for the six months ended June 30, 2021, as compared to a gain of RMB25.4 million for the six months ended June 30, 2020. The Group's exchange differences on translation of foreign operations represented the foreign exchange translation differences as certain overseas subsidiaries use Hong Kong dollars ("**HKD**") as the reporting currency.

Total Comprehensive Income/Expense for the Period

As a result of the foregoing, the Group's total comprehensive income for the six months ended June 30, 2021 amounted to RMB223.2 million, as compared to comprehensive expense of RMB16.8 million for the six months ended June 30, 2020.

Liquidity and Capital Resources

During the six months ended June 30, 2021, the Group financed its operations primarily through cash generated from its business operations and the net proceeds received from its initial public offering (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.

In addition, in November 2020, the Company completed and executed its offering of convertible bonds due 2025 in the aggregate principal amount of HK$1,550.0 million, bearing interest at the rate of 1% per annum (the "**2025 Bonds**" or the "**Convertible Bonds**"). Please refer to the announcements of the Company dated October 28, 2020 and November 5, 2020 for more details. The estimated net proceeds from the issuance of the 2025 Bonds, after deducting the relevant commissions and other estimated expenses payable, are approximately HK$1,519.8 million. The net proceeds from the issuance of the 2025 Bonds will be used (i) to further penetrate in existing markets and explore new business opportunities; (ii) to enhance product innovation, research and development capabilities; and (iii) for working capital and for general corporate purposes.

Capital Structure

As of June 30, 2021, the Group had net assets of approximately RMB4,178.3 million, as compared to RMB4,100.9 million as of December 31, 2020, comprising current assets of approximately RMB4,136.7 million, non-current assets of approximately RMB2,649.6 million, current liabilities of approximately RMB1,024.9 million and non-current liabilities of approximately RMB1,583.1 million.

As of December 31, 2020 and June 30, 2021, the cash and cash equivalents of the Group were mainly denominated in RMB, HKD and United States dollars ("**USD**"), with small amount denominated in Euro.

Cash and Bank Balances

As compared with RMB1,583.8 million as of December 31, 2020, the Group had cash and bank balances of approximately RMB2,415.8 million as of June 30, 2021, which consisted of unrestricted cash and bank balances of approximately RMB380.9 million and term deposits of approximately RMB2,034.9 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 may expose the Group 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, including using derivative contracts to hedge against the foreign exchange risk exposure when appropriate, to minimize the currency translation risk.

Use of Proceeds from the IPO

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 IPO 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 was RMB768.6 million as of December 31, 2020 and RMB682.9 million as of June 30, 2021, respectively.

As announced in the Company's 2019 annual results announcement dated March 31, 2020, the Board has resolved to reallocate the unutilized net proceeds to and increase the portion to be used for the construction and improvement of processing facilities, which also includes the enhancement of the related logistics and storage capacities.

The table below sets forth the use of proceeds by the Group as of June 30, 2021:

	Budget	Amount that had been utilized as of December 31, 2020	Amount that was used for the six months ended June 30, 2021	Remaining balance as of June 30, 2021	Expected timeline of utilization[1]
			(in RMB million)		
Construction and improvement of processing facilities	1,258.3	965.3	41.1	251.9	Expected to be used up in three years
Development of retail store network	167.8	131.0	9.0	27.8	Expected to be used up in one year
Brand image campaigns, including the e-commerce marketing campaigns	394.3	245.4	19.4	129.5	Expected to be used up in one year
Improvement of research and development	45.2	25.2	13.4	6.6	N/A[2]
Acquisition and strategic alliances	145.2	17.9	–	127.3	N/A[2]
Upgrades of information technology systems, including the enterprise resource planning system	96.2	62.8	2.8	30.6	Expected to be used up in two years
General replenishment of working capital	345.2	236.0	–	109.2	Expected to be used up in one year
Total	2,452.2	1,683.6	85.7	682.9	

(1) Based on the Group's current estimates of its business plans and market conditions, and subject to change and adjustment.

(2) The Group expects that the remaining balance will be used in accordance with the intended usage in the coming years as indicated but it is not able to reasonably estimate a detailed timeline of utilization at current stage.

As of June 30, 2021, net proceeds not utilized had been deposited into short-term deposits and money market instruments, including structured deposits.

Use of Proceeds from the 2025 Bonds

The Company completed the offering of the 2025 Bonds in November 2020 and the net proceeds from the issuance of the 2025 Bonds, after deducting the relevant commissions and other estimated expenses payable, are approximately HK$1,519.8 million. Please refer to the section headed "Liquidity and Capital Resources" for details about the proposed use of proceeds from the 2025 Bonds. As of June 30, 2021, the Group had not utilized any net proceeds which had been deposited into short-term deposits and money market instruments, including structured deposits.

Indebtedness

As of June 30, 2021, the Group had an aggregate bank borrowings of RMB110.0 million, all of which will be due within one year. Such outstanding bank borrowings were bearing fixed interest rates and denominated in Renminbi. As of the date of this announcement, approximately RMB60 million had been fully repaid by the due dates with the remaining unexpired yet.

The Group uses the gearing ratio (total liabilities/total assets) to monitor its capital structure. As of June 30, 2021, the gearing ratio of the Group increased from 25.9% as of June 30, 2020 to 38.4% as of June 30, 2021, mainly due to the issuance of RMB1,319.6 million of 2025 bonds in November, 2020.

Pledged Assets

As of June 30, 2021, the Group had pledged bank deposits of RMB60 million (December 31, 2020: RMB380.1 million) which were pledged as securities for the short-term bank borrowings of RMB60 million (December 31, 2020: RMB370.1 million). The Group also has guarantee deposits of RMB4.0 million in connection with the construction of its processing facility as of June 30, 2021 (December 31, 2020: RMB4.0 million).

Cash Flows

For the six months ended June 30, 2021, net cash generated from operating activities increased to approximately RMB322.3 million from RMB60.0 million for the six months ended June 30, 2020, which was mainly attributed to profit before tax of RMB318.6 million, adjusted for certain non-cash items and profit before tax from non-operating activities such as depreciation of fixed assets, depreciation and amortization of right-of-use assets and land use rights, interest income from bank deposits and interest income from structured deposits etc. Additional factors that affected net cash generated from operating activities included: (i) an increase of RMB370.2 million in profit before tax while income tax paid decreased by RMB 9.1 million; (ii) an increase of RMB36.4 million in inventory mainly due to the increased production activities; (iii) a decrease of RMB46.8 million in other payables and accruals; (iv) an increase of RMB9.0 million in trade payables due to increased procurement in the relevant period; and (v) an increase of RMB4.8 million in trade receivables.

For the six months ended June 30, 2021, net cash from investing activities was approximately RMB25.8 million compared with RMB222.7 million for the six months ended June 30, 2020, which was mainly attributed to (i) the purchases of structured deposits and financial assets as fair value through profit or loss ("**FVTPL**") in the aggregate amount of RMB1,445 million; (ii) an increase of term deposits of maturity over three months of RMB722.5 million; and (iii) the expense of RMB17.5 million on the investment in associates, partially offset by (i) the redemption of structured deposits and financial assets measured at fair value through profit or loss in the aggregate amount of RMB2,208.4 million, and (ii) the interest from structured deposits and other financial assets measured as fair value through profit or loss of RMB24.9 million.

For the six months ended June 30, 2021, net cash used in financing activities was approximately RMB224.8 million compared with RMB129.0 million for the six months ended June 30, 2020, which mainly represents (i) the repayment of borrowings of RMB340.7 million; (ii) the payment of dividends of RMB154.7 million; and (iii) lease rental payments of RMB101.7 million, partially offset by (i) new borrowings of RMB50 million; and (ii) a decrease of RMB320.1 million in pledged deposits.

Structured Deposits and Financial Assets Measured at FVTPL

The Group from time to time invests in asset management products, primarily structured deposits and financial assets measured at FVTPL, 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. The Group's financial assets measured at FVTPL were mainly investments in equity funds, which generally are not principal-protected nor return-guaranteed. Such investments also typically have a fixed short term and are relatively low risk in nature. As of June 30, 2021, the Group had a balance of structured deposits and financial assets measured at FVTPL in the amount of approximately RMB1,084.2 million. Up to the date of this announcement, approximately RMB323.8 million out of the RMB1,084.2 million had been settled and redeemed upon their maturity with the remaining not yet fallen due. The underlying investments of the structured deposits and financial assets measured at FVTPL 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 akin to placing deposits with banks whilst enabling the Group to earn a relatively higher rate of return. In the six months ended June 30, 2021, interest income from structured deposits and financial assets measured at FVTPL amounted to RMB24.9 million (six months ended June 30, 2020: approximately RMB11.9 million).

The Company subscribed certain asset management products during the year ended December 31, 2020, which constituted notifiable transactions of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and were disclosed in the discloseable transaction announcement published by the Company on November 13, 2020. In particular, the two wealth management products issued by Industrial Bank Co., Ltd. (a bank established in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 601166)) had initial principal amounts of HK$420.0 million and HK$580.0 million, respectively, at the subscription date, and carrying values of RMB355.2 million and RMB490.4 million, respectively, as of December 31, 2020. The two wealth management products matured on February 25, 2021 and March 17, 2021, respectively, and the Group received returns of RMB3.6 million and RMB5.7 million, respectively. Save as the above, there was no other single short-term investment in the Group's investment portfolio that was considered a significant investment as none of the investments has a carrying amount that account for more than 5% of the Group's total assets as of June 30, 2021.

As of June 30, 2021, the Group had a balance of non-current financial asset measured at FVTPL in the amount of approximately RMB120 million. The investment of non-current financial asset measured at FVTPL was a private equity fund, of which the Group is a limited partner. The private equity fund is managed by an independent professional fund manager approved by Asset Management Association of China for a period of five years.

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. The Group generally considers investments in low-risk products issued by qualified commercial banks or other financial institutions. 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. The Directors are of the view that the terms and conditions of its structured deposits and financial asset measured at FVTPL 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 RMB41.1 million for the six months ended June 30, 2021, mainly in connection with the establishment and improvement of processing facilities. The Group financed its capital expenditures primarily with cash generated from operations and the proceeds from the IPO and the issuance of the 2025 Bonds.

Contingent Liabilities and Guarantees

As of June 30, 2021, the Group did not have any significant contingent liabilities, guarantees or any litigation against it.

Major Investment

The Group did not conduct any material investments, acquisitions or disposals in the six months ended June 30, 2021 and in the period subsequent to June 30, 2021 and up to August 24, 2021, being the date of this announcement.

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 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.

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.

As of the date of this announcement, pursuant to the RSU Scheme, 160 selected persons had received the RSUs representing 13,561,382 shares of the Company with par value of US$0.000001 each, of which (i) two selected persons who are directors of the Company had received RSUs representing 3,746,294 shares; and (ii) 158 selected persons who are employees of the Group had received RSUs representing 9,815,088 shares. The underlying shares concerned represented 0.6% of the Company's issued shares.

Please refer to the Company's announcements dated July 25, July 31 and October 24, 2018 for a detailed summary of its RSU Scheme and the announcements dated April 20, 2020 and March 25, 2021 for the details in connection with the grants of the RSUs.

Turnover Ratios

Average inventory turnover days decreased from 163.7 days for the six months ended June 30, 2020 to 82.6 days for the six months ended June 30, 2021, mainly due to faster turnover of raw materials and finished goods with the acceleration of increasing production and sales resulting from the control of the COVID-19 pandemic.

Average trade receivables turnover days were 7.0 days for the six months ended June 30, 2020 as compared with 8.5 days for the six months ended June 30, 2021, remaining relatively stable.

Average trade payables turnover days decreased from 41.2 days for the six months ended June 30, 2020 to 27.5 days for the six months ended June 30, 2021, mainly due to the rapid consumption of inventory reserves resulting from the increase in sales in the first half of 2021 and thus the decrease in average inventory procurement as compared with that in the first half of 2020.

Employee and Labor Cost

As of June 30, 2021, the Group had a total of 4,111 employees, among which approximately 51.0% were retail store operations and sales staff and approximately 16.4% 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.

For the six months ended June 30, 2021, the Group incurred total labor costs of RMB222.3 million, representing approximately 15.3% of total revenue of the Group over the same period.

Top Suppliers and Top Customers

For the six months ended June 30, 2021, purchases from the Group's largest duck supplier in terms of RMB amount accounted for approximately 6.9% of total purchase cost and the aggregate purchases from its top five duck suppliers in terms of RMB amount in aggregate accounted for approximately 20.0% of total purchase cost.

For the six months ended June 30, 2021, due to the nature of the Group's business, revenue derived from its top five customers accounted for less than 30% of total revenue.

Reserves

As of June 30, 2021, the Group's reserves available for distribution to shareholders of the Company amounted to approximately RMB1,575.8 million.

Subsequent Events

Subsequent to June 30, 2021 and up to the date of this announcement, the Group has purchased an aggregate of 10,583,000 shares. The shares so purchased will be used as awards for the participants in the restricted share unit scheme.

Other than the above-mentioned matter, no material events were undertaken by the Group subsequent to June 30, 2021 and up to August 24, 2021, being the date of this announcement.

FINANCIAL INFORMATION

The unaudited consolidated interim results of the Group for the six months ended June 30, 2021 are as follows:

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

For the six months ended 30 June 2021

	Notes	2021	2020
		RMB'000 (unaudited)	**RMB'000 (unaudited)**
REVENUE	4	**1,452,972**	903,470
Cost of sales		**(595,765)**	(410,542)
Gross profit		**857,207**	492,928
Other income and gains, net	4	**92,745**	21,600
Finance cost		**(32,140)**	(17,104)
Selling and distribution expenses		**(500,145)**	(461,507)
Administrative expenses		**(120,302)**	(81,310)
Share of profits and (losses) of an associate		**21,273**	(6,138)
PROFIT/(LOSS) BEFORE TAX	5	**318,638**	(51,531)
Income tax (expense)/credit	6	**(89,082)**	9,337
PROFIT/(LOSS) FOR THE PERIOD		**229,556**	(42,194)
Attributable to:			
Owners of the parent		**229,556**	(42,194)

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

For the six months ended 30 June 2021

	Note	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**3,215**	(7,201)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**3,215**	(7,201)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**(9,620)**	32,618
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(9,620)**	32,618
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(6,405)**	25,417
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**223,151**	(16,777)
Attributable to:			
Owners of the parent		**223,151**	(16,777)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic (RMB)			
– For profit/(loss) for the period		**0.10**	(0.02)
Diluted (RMB)			
– For profit/(loss) for the period		**0.10**	(0.02)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,423,981**	1,407,646
Right-of-use assets		**578,194**	568,581
Investments in associates		**315,857**	277,069
Prepayments		**16,943**	15,328
Rental deposits		**92,049**	90,453
Other intangible assets		**26,168**	30,719
Other financial assets at fair value through profit or loss, non-current		**120,000**	120,000
Deferred tax assets		**76,409**	80,880
Total non-current assets		**2,649,601**	2,590,676
CURRENT ASSETS			
Inventories		**291,543**	255,191
Trade receivables	9	**71,091**	66,250
Prepayments and other receivables		**210,041**	175,460
Structured deposits		**367,095**	232,204
Other financial assets at fair value through profit or loss, current		**717,083**	1,607,798
Derivative financial instruments		**–**	19,417
Restricted cash		**64,000**	384,066
Cash in transit		**–**	68
Cash and bank balances		**2,415,833**	1,583,761
Total current assets		**4,136,686**	4,324,215
CURRENT LIABILITIES			
Interest-bearing bank borrowings, current		**110,000**	400,765
Derivative financial instruments		**79,740**	50,184
Trade payables	10	**95,365**	86,393
Other payables and accruals		**468,229**	459,353
Government grants, current		**2,372**	2,372
Lease liabilities, current		**203,090**	224,414
Income tax payable		**66,123**	38,002
Total current liabilities		**1,024,919**	1,261,483
NET CURRENT ASSETS		**3,111,767**	3,062,732
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,761,368**	5,653,408

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2021

	Notes	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Convertible bonds		**1,239,893**	1,240,150
Other payables and accruals, non-current		**31,052**	16,868
Deferred tax liabilities		**51,186**	40,562
Government grants, non-current		**52,526**	53,670
Lease liabilities, non-current		**208,447**	201,305
Total non-current liabilities		**1,583,104**	1,552,555
NET ASSETS		**4,178,264**	4,100,853
EQUITY			
Equity attributable to owners of the parent			
Share capital	11	**16**	16
Treasury shares		**(261,334)**	(263,525)
Reserves		**4,439,582**	4,364,362
TOTAL EQUITY		**4,178,264**	4,100,853

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, One Nexus Way, Camana Bay, 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**").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the business of casual braised duck related food production, marketing and retailing ("**Zhou Hei Ya Business**") in the mainland of the People's Republic of China (the "**PRC**").

In the opinion of the directors of the Company (the "**Directors**"), the ultimate controlling shareholders of the Company are Mr. Zhou Fuyu and Ms. Tang Jianfang (together known as the "**Controlling Shareholders**").

In the opinion of the Directors, the ultimate holding company of the Company is Healthy Origin Holdings Limited, which is incorporated in the British Virgin Islands.

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2020.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except structured deposits, derivative financial instruments and other financial assets measured at fair value through profit or loss ("**FVTPL**") which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)

The nature and impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the Loan Prime Rate ("**LPR**") as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19 pandemic. A reduction in the lease payments arising from the rent concessions of RMB6,037,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

3. OPERATING SEGMENT INFORMATION

The Group's principal business is the production, marketing and retailing of casual braised duck-related food. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the production, marketing and retailing of casual braised duck-related food.

Information about geographical area

Since all of the Group's revenue was generated from the production, marketing and retailing of casual braised duck-related food in Mainland China and approximately 100% of the Group's non-current assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 – *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue, no information about major customers is presented in accordance with HKFRS 8 – *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

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

Revenue from contracts with customers

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Types of goods or service		
Modified-Atmosphere-Packaged products	**1,267,331**	781,802
Vacuum-packaged products	**159,891**	115,630
Franchise fees of retail stores	**11,365**	1,941
Other products	**14,385**	4,097
Total revenue from contracts with customers	**1,452,972**	903,470

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Timing of revenue recognition		
Goods transferred at a point in time	**1,441,607**	901,529
Service transferred over time	**11,365**	1,941
	1,452,972	903,470

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**18,372**	–
Franchise fee	**2,661**	1,941
	21,033	1,941

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of casual braised food

The performance obligation is satisfied upon delivery of the goods and payment is generally settled once the goods are delivered, except for franchisees and distributors, where payment in advance is normally required.

Franchise fees of retail stores

The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services. Generally, franchise fee contracts are for periods of more than one year, and the franchise fees are billed according to the contracts.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June are as follows:

	30 June 2021	**31 December 2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Amounts expected to be recognised as revenue:		
Within one year	**24,518**	23,694
After one year	**31,052**	16,868
	55,570	40,562

(c) Other income and gains, net

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Other income and gains, net		
Interest income from bank deposits	**23,636**	18,839
Interest income from structured deposits	**4,141**	11,900
Interest income from other financial assets at FVTPL	**20,768**	–
Fair value gain/(loss) on structured deposits measured at FVTPL	**3,721**	(17)
Fair value gain on other financial assets measured at FVTPL	**3,850**	–
Gain on derivative instruments – transactions not qualifying as hedges	**2,330**	–
Fair value loss on financial instruments – embedded derivative component of convertible bonds	**(29,556)**	–
Gain on disposal of items of property, plant and equipment, net	**48,218**	959
Gain on disposal of items of right-of-use assets	**285**	–
Gain/(loss) on foreign exchange differences	**7,144**	(11,055)
Government grants*	**2,278**	7,210
Donation expense	**–**	(11,498)
Others	**5,930**	5,262
Total	**92,745**	21,600

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

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Cost of inventories sold	**483,377**	309,144
Depreciation of property, plant and equipment	**59,575**	60,355
Amortization of other intangible assets	**5,949**	5,035
Auditors' remuneration	**1,090**	1,090
Depreciation of right-of-use assets	**140,613**	164,275
Lease payments not included in the measurement of lease liabilities	**35,587**	33,677
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**174,627**	141,479
Equity-settled share-based payment expense, net	**8,872**	1,362
Pension scheme contributions	**26,148**	12,966
Other welfare	**12,637**	14,145
Advertising and promotion expenses	**20,533**	14,839
E-commerce and online ordering platform related service and delivery fees	**94,145**	76,213
Utility expenses	**16,971**	17,781
Share of (profits)/losses of an associate	**(21,273)**	6,138
Transportation expenses	**38,726**	22,725
Gain on disposal of items of property, plant and equipment	**(48,218)**	(959)
Finance cost	**32,140**	17,104
(Gain)/loss on foreign exchange	**(7,144)**	11,055
Interest income from bank deposits	**(23,636)**	(18,839)
Interest income from structured deposits	**(4,141)**	(11,900)
Interest income from other financial assets at FVTPL	**(20,768)**	–
Fair value (gains)/loss on structured deposits measured at FVTPL	**(3,721)**	17
Fair value gains on other financial assets measured at FVTPL	**(3,850)**	–
Fair value loss on derivative instruments – embedded derivative component of convertible bonds	**29,556**	–
Gain on disposal of right-of-use assets	**(285)**	–
Gain on derivative instruments – transactions not qualifying as hedges	**(2,330)**	–

Note:

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with rules of the central pension scheme.

6. INCOME TAX

The major components of income tax expenses are as follows:

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 **(unaudited)**	**RMB'000** **(unaudited)**
Current income tax in PRC	**73,987**	13,882
Deferred tax	**15,095**	(23,219)
Total tax charge for the period	**89,082**	(9,337)

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% (2020: 25%) of the assessable profits of subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

7. INTERIM DIVIDENDS

The Directors proposed not to declare any interim dividend for the six months ended 30 June 2021.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,317,807,523 (six months ended 30 June 2020: 2,317,728,500) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds (when applicable). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended 30 June	
	2021	**2020**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic earnings/(loss) per share calculation	**229,556**	(42,194)
Add: Interest on convertible bonds	**20,788**	–
Fair value loss on the derivative component of the convertible bonds	**29,556**	–
Profit/(loss) attributable to ordinary equity holders of the parent before interest on convertible bonds	**279,900**	(42,194)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,317,807,523**	2,317,728,500
Effect of dilution – weighted average number of ordinary shares:		
Restricted share unit scheme	**3,878,518**	3,947,200
Convertible bonds	**149,038,462**	–
	2,470,724,503*	2,321,675,700
Earnings/(loss) per share:		
Basic (RMB)	**0.10**	(0.02)
Diluted (RMB)	**0.10**	(0.02)

* Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the period of RMB229,556,000, and the weighted average number of ordinary shares of 2,321,686,041 in issue during the period.

9. TRADE RECEIVABLES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade receivables	**71,091**	66,250
Less: Impairment provision	**–**	–
	71,091	66,250

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

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Within 3 months	**49,044**	65,840
Over 3 months	**22,047**	410
	71,091	66,250

10. TRADE PAYABLES

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

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Within 3 months	**80,886**	66,371
3 to 6 months	**12,309**	18,387
Over 6 months	**1,589**	1,514
Over 12 months	**581**	121
	95,365	86,393

The trade payables are non-interest-bearing.

11. SHARE CAPITAL

	30 June 2021	31 December 2020
	RMB'000 (unaudited)	RMB'000 (audited)
Authorised:		
50,000,000,000 shares of USD0.000001 each (31 December 2020: 50,000,000,000 shares of USD0.000001 each)	**306**	306
Issued and fully paid:		
2,383,140,500 shares of USD0.000001 each (31 December 2020: 2,383,140,500 shares of USD0.000001 each)	**16**	16

A summary of movements in the Company's share capital is as follows:

	Numbers of shares in issue	Share capital	Treasury shares
		RMB'000	RMB'000
At 1 January 2020, 31 December 2020 and 1 January 2021 (audited)	2,383,140,500	16	(263,525)
Repurchased of shares	–	–	(386)
Issue of shares under Equity-settled share-based payment Arrangements	–	–	2,577
At 30 June 2021 (unaudited)	2,383,140,500	16	(261,334)

12. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2021 and up to the date of this report, the Group has purchased an aggregate of 10,583,000 shares. The shares so purchased will be used as awards for the participants in the restricted share unit scheme.

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 six months ended June 30, 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2021, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, they have confirmed that they have complied with the Model Code throughout the six months ended June 30, 2021.

AUDIT COMMITTEE

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

The Audit Committee has reviewed and discussed the Interim Results for the six months ended June 30, 2021.

INTERIM DIVIDEND

The Board proposed not to declare any interim dividend for the six months ended June 30, 2021 (June 30, 2020: nil).

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

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

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

Hong Kong, August 24, 2021

As at the date of this announcement, Mr. ZHOU Fuyu, Mr. ZHANG Yuchen and Mr. WEN Yong 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.