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, 2019

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		Period-over-Period
	2019	**2018**	**Change**
	RMB'000	**RMB'000**	**%**
Revenue	**1,625,947**	1,596,582	1.8
Gross profit	**908,633**	955,677	(4.9)
Profit before tax	**294,575**	439,176	(32.9)
Profit for the period attributable to owners of the Company	**224,055**	331,511	(32.4)

OPERATIONAL HIGHLIGHTS

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

	Six Months Ended June 30,	
	2019	**2018**
Number of self-operated retail stores	**1,255**	1,196
Total sales volume (tons)	**18,324**	18,235
Average spending per purchase order (RMB)	**62.13**	65.83

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,			
	2019		**2018**	
	RMB'000	%	RMB'000	%
Ducks and duck part products	**1,419,633**	**87.3**	1,399,985	87.7
Other Products[1]	**206,314**	**12.7**	196,597	12.3
Total revenue	**1,625,947**	**100.0**	1,596,582	100.0

(1) Others primarily includes braised red meat, braised vegetable products, other braised poultry and aquatic food products.

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

	Six Months Ended June 30,			
	2019		**2018**	
	RMB'000	%	RMB'000	%
Self-operated retail stores[1]	**1,403,174**	**86.3**	1,377,389	86.3
Online channels	**164,260**	**10.1**	150,221	9.4
Distributors	**50,398**	**3.1**	62,838	3.9
Others[2]	**8,115**	**0.5**	6,134	0.4
Total revenue	**1,625,947**	**100.0**	1,596,582	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 9.9% and 14.3% of the revenue from self-operated retail stores in the six months ended June 30, 2018 and 2019, respectively.

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

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, 2019. 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 2019, China's macro-economy has achieved a stable GDP growth, and Chinese domestic consumer spending has generally been recovering. Chinese casual braised food industry, nevertheless, has been facing an unprecedented competitive landscape, as a result from various factors, including the changes in supply-and-demand of the upstream business, rapidly evolving consumption habits, as well as the challenges from continuous brand upgrade and replacement resulting from consumption upgrades.

Consumer groups comprising primarily of the post-90 and -00 generations have been quickly growing under the new environment, who have more consumption choices with diversity and personalized concerns. As such, to timely understand the consumption habits and demands of young consumers becomes an important task of the players in the consumer goods industry. It is also witnessed that the customer loyalty to a single brand has been decreasing considerably. "Whole category" casual food brands have entered into the braised food sector through online channels and competed with low-price strategy. As to the offline, consumers are further diverted by continuously emerging new regional or long-tail braised food retail brands. In addition, the intensified upstream supply-and-demand relationships of animal proteins due to the African swine fever outbreak, as well as the intensified competition for better store locations in areas with high passenger traffic, such as transport hubs and busy shopping areas, have continued to be the major challenges for casual braised food companies nowadays in China.

Chinese government has enhanced the regulations on small-scale food production industry, which drove the consumption scenarios of casual braised food from traditional family food workshops to transform into branded chains and seek distribution channels of convenience stores and supermarkets. The Group will continue to put the customers first, focus on product innovation, and endeavor to improve customers' shopping experience by streaminglining online and offline retail resources and logistics network, creating omni-channel retailing scenarios and exploring multi-channel strategy in light of distribution.

Overall Business and Financial Performance

Store Network Expansion and Optimization

In the first half of 2019, the Group continued to optimize store network establishment to enhance store network expansion and penetration. The Group also conducted a more careful scrutiny on single store performance. It newly opened 84 self-operated retail stores and closed 117 stores during the six-month period, mainly due to store underperformance and urban renovation. In the first half of 2019, the Group newly entered into a number of new cities, such as Xinyang in Henan Province, Jinjiang in Fujian Province, and Jiangmen and Shantou in Guangdong Province. As of June 30, 2019, the total number of the Group's self-operated retail stores reached 1,255, covering 96 cities in 17 provinces and municipalities in China.

Geographically, central China region remained the major regional market of the Group for the six months ended June 30, 2019, which contributed approximately 60.0% of total revenue derived from self-operated retail stores for the six months ended June 30, 2019. Southern China experienced a significant growth during the six months ended June 30, 2019 and its revenue contribution increased by approximately 28.8% compared with the corresponding period in 2018. The Group tapped into and started to generate revenue from northwestern China region in late 2018.

In the first half of 2019, it remained a major strategy of the Group to locate its self-operated retail stores in the transport infrastructure, such as airports, railway stations and subway stations, or the ancillary facilities surrounding the transport infrastructure. As of June 30, 2019, among all self-operated retail stores operated by the Group, 362 stores were transport hub stores and revenue derived from such hub stores accounted for approximately 40.1% of the total revenue for the six months ended June 30, 2019.

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

Number of Stores

	Six Months Ended June 30,			
	2019		**2018**	
	#	%	#	%
Central China[1]	**560**	**44.7**	520	43.4
Southern China[2]	**226**	**18.0**	207	17.3
Eastern China[3]	**203**	**16.2**	228	19.1
Northern China[4]	**180**	**14.3**	178	14.9
Southwestern China[5]	**77**	**6.1**	63	5.3
Northwestern China[6]	**9**	**0.7**	–	–
Total	**1,255**	**100.0**	1,196	100.0

Revenue

	Six Months Ended June 30,			
	2019		2018	
	RMB'000	%	RMB'000	%
Central China[(1)]	**841,575**	**60.0**	865,030	62.8
Southern China[(2)]	**224,735**	**16.0**	174,540	12.6
Eastern China[(3)]	**153,530**	**10.9**	167,378	12.2
Northern China[(4)]	**149,573**	**10.7**	147,065	10.7
Southwestern China[(5)]	**28,315**	**2.0**	23,376	1.7
Northwestern China[(6)]	**5,446**	**0.4**	–	–
Total	**1,403,174**	**100.0**	1,377,389	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

The Group continued to penetrate in new regional markets by establishing retail stores, in order to improve the efficiency of logistics and customer experience. The Group also continued to expand its production capacity so as to match the market demands and the expanding store network. The processing facility in Dongguan in Guangdong Province commenced operation in the first half of 2019. The Group continued to optimize its production arrangements in order to increase its production capacity and efficiency in the first half of 2019. Based on its long-term development strategies, the Group has carried out the plan to establish processing facilities in five regions across the country. The Group currently has three processing facilities located in Hebei, Hubei, and Guangdong, and is in the process of constructing two additional processing facilities located in Jiangsu and Sichuan.

The Group has continued to optimize the production capacity of its processing facilities, aiming to address the pressure arising from the long distance to various retail stores and the products' short shelf-life. Meanwhile, the Group expects the overall production capacity to increase to match the expansion of sales network, which will also support the launch of new products. It is believed that, with its current and new production facilities under development, the Group has sufficient production capacities to meet the customer needs nationwide in the future.

Branding and Marketing

In the first half of 2019, the Group continued to enhance its branding establishment and upgrade its brand image. It launched a number of online and offline marketing and promotional events to maintain a young and fashionable brand image, aiming to increase the brand awareness and customer loyalty.

Through offline channels, the Group cooperated with popular public figures targeting the young consumer groups of post-90 and -00 generations. It placed traditional offline advertisements, featuring with popular public figures and trending brand hashtags, at transport hubs such as airports and subways. The Group has also actively organized various interactive events with members in order to attract young customers. In the first half of 2019, the Group continued to organize exploring feast tours to attract young customers who are labeled as being interested in enjoying life and travelling, and hold periodical tasting events for members to offer face-to-face interactions with customers and enhance their loyalty. Through online channels, the Group also enhanced its brand awareness and attraction among young customers who are active in online social media communities by posting interesting short-form videos and creating fun and quality online content marketing activities and interactions, driving traffic through vertical social media platforms such as Xiaohongshu and Toutiao. Moreover, the Group organized high-quality cross-promotional events to explore multi-faceted consumption scenarios.

In the first half of 2019, the Group invited well-known design firms to assist the upgrade of its brand IP, which is featured with a younger personalizing image, and had promoted and spread such new brand image online through various social media platforms. It also upgraded the appearance of product packages to carry and spread the new IP image.

E-Commerce and Online Ordering and Delivering Operation

Since 2019, the online competition has become more and more intense and the magic of online traffic has been fading. Facing with such new challenges, the Group continued to expand its sales network across the country, to develop its self-operated online platform as well as to accelerate its plans in connection with establishing presence on other third-party e-commerce communities. On the other hand, based on the understanding and market insights about online consumption demands, the Group continued its production innovation, and design marketing events in different forms, such as live shows on Tmall, and cross-promotions partnering with other e-commerce brands. The Group also introduced new online-only customized products to boost online sales, such as New Year gift packs and all-in gift packs. For the six months ended June 30, 2019, revenue derived from online channels increased by 9.3% from the corresponding period in 2018.

In the first half of 2019, the Group has offered local food ordering and delivery services in the cities where it has self-operated retail stores. It had also increased the marketing efforts for such delivery services. On the one hand, the Group continued the cooperation with third-party local food ordering and delivery platforms. On the other hand, it endeavored to attract customer traffics to try the delivery services from the mini-program on WeChat by marketing activities on WeChat and in retails stores. In the six months ended June 30, 2019, revenue derived from online food ordering and delivery increased by 47.5% from the corresponding period in 2018.

Industry and Business Outlook

With the increasingly stringent governmental regulations on the industry and the rapidly evolving consumption behaviors and habits, China's casual braised food industry has been in dire need of transition and consumption upgrades. The industry, however, is facing the pressures from rising raw material costs, rental and labor costs, as well as the intensifying competition. The Group believes that the omni-channel and multi-scenario retailing is expected to be a new normal model of its industry, and the establishment of a comprehensive value chain centering the customers and addressing their needs will be critical for future success.

The Group's major development targets in the following stage are to enhance its core competitiveness, to increase the market share, and to strengthen its leadership in the industry. The Group's business strategies will focus on the following aspects:

- Take advantage of the franchise model and further penetrate existing markets and strategically expand into new selected regions;

- Explore multiple distribution channels;

- Enhance product innovation;

- Optimize and integrate marketing and promotion resources; and

- Develop the result-oriented talent incentive programs.

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, 2018 over the six months ended June 30, 2019 (expressed in percentages).

	Six Months Ended June 30,				Period-over-Period Change
	2019		2018		
	RMB'000	%	RMB'000	%	%
Revenue	**1,625,947**	**100.0**	**1,596,582**	**100.0**	**1.8**
Cost of sales	**(717,314)**	**(44.1)**	(640,905)	(40.1)	11.9
Gross profit	**908,633**	**55.9**	**955,677**	**59.9**	**(4.9)**
Other income and gains, net	**60,502**	**3.7**	65,217	4.1	(7.2)
Finance cost	**(14,584)**	**(0.9)**	–	–	–
Selling and distribution expenses	**(551,251)**	**(33.9)**	(495,158)	(31.0)	11.3
Administrative expenses	**(101,290)**	**(6.2)**	(86,560)	(5.5)	17.0
Shares of losses of an associate	**(7,435)**	**(0.5)**	–	–	–
Profit before tax	**294,575**	**18.1**	**439,176**	**27.5**	**(32.9)**
Income tax expense	**(70,520)**	**(4.3)**	(107,665)	(6.7)	(34.5)
Profit for the period	**224,055**	**13.8**	**331,511**	**20.8**	**(32.4)**
Other comprehensive income					
Exchange differences on translation of foreign operations	**6,563**	**0.4**	12,410	0.8	(47.1)
Other comprehensive income for the period, net of tax	**6,563**	**0.4**	12,410	0.8	(47.1)
Total comprehensive income for the period	**230,618**	**14.2**	**343,921**	**21.5**	**(32.9)**
Basic and diluted earnings per share (RMB)	**0.10**	**NA**	0.14	NA	(28.6)

Revenue

The Group's total revenue slightly increased by approximately 1.8% from RMB1,596.6 million for the six months ended June 30, 2018 to RMB1,625.9 million for the six months ended June 30, 2019, which was primarily due to the slight increases in sales from self-operated retail stores and online channels.

Cost of Sales

Cost of sales increased by approximately 11.9% from RMB640.9 million for the six months ended June 30, 2018 to RMB717.3 million for the six months ended June 30, 2019, primarily due to the overall increase in our raw material costs, the increase in depreciation as the expansion of processing facilities and the increased labor costs.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit decrease by 4.9% from RMB955.7 million for the six months ended June 30, 2018 to RMB908.6 million for the six months ended June 30, 2019.

The Group's gross profit margin decreased from 59.9% for the six months ended June 30, 2018 to 55.9% for the six months ended June 30, 2019.

Other Income and Gains, Net

The Group's other income and gains, net decreased by approximately 7.2% from RMB65.2 million for the six months ended June 30, 2018 to RMB60.5 million for the six months ended June 30, 2019. The decrease was primarily due to (i) a decrease of RMB9.0 million in gain of foreign exchange, and (ii) a decrease of RMB5.0 million in interest income from bank deposits and structured deposits, partially offset by (i) a decrease in loss on disposal of items of property, plant and equipment of RMB7.0 million and (ii) an increase in government grants of RMB2.3 million.

Finance Cost

The Group incurred finance cost of RMB14.6 million in the six months ended June 30, 2019, which mainly represented the interest expenses of lease liabilities recognized due to the adoption of HKFRS 16 *Leases* since January 1, 2019.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately 11.3% from RMB495.2 million for the six months ended June 30, 2018 to RMB551.3 million for the six months ended June 30, 2019. The increase was primarily due to the increases in rental expenses in connection with the Group's store network expansion, salary and welfare for selling personnel, advertising and promotion related expenses, as well as the transportation expenses resulting from geographic expansion.

Administrative Expenses

The Group's administrative expenses increased by approximately 17.0% from RMB86.6 million for the six months ended June 30, 2018 to RMB101.3 million for the six months ended June 30, 2019, primarily due to (i) the increase in administrative expenses in connection with the commencement of operation of the Group's Hubei processing facility (Phase I) and Dongguan processing facility in the second half of 2018 and the first half of 2019, respectively, and (ii) the increasing amortization expenses of software and hardware in connection with the launch of SAP system in different regions within the Group.

Shares of Losses of an Associate

For the six months ended June 30, 2019, the Group incurred shares of losses of an associate of RMB7.4 million in connection with the 37.51% equity interest (50% prior to March 2019) in Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership), which was jointly established with two subsidiaries of Shenzhen Tiantu Investment Co., Ltd., resulting from the management and administration related expenses at its early stage. The change in the Group's equity interest in Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) was due to the addition of a new partner in March 2019.

Profit Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB294.6 million for the six months ended June 30, 2019, decreased by approximately 32.9% from RMB439.2 million for the six months ended June 30, 2018.

Income Tax Expense

Income tax expense decreased by approximately 34.5% from RMB107.7 million for the six months ended June 30, 2018 to RMB70.5 million for the six months ended June 30, 2019, primarily due to the decrease in taxable profit.

Profit for the Period

As a result of the foregoing, due to the fact that the Group's continued increases in operating expenses and costs, the Group's net profit decreased by approximately 32.4% from RMB331.5 million for the six months ended June 30, 2018 to RMB224.1 million for the six months ended June 30, 2019. Net profit margin was 20.8% for the six months ended June 30, 2018 and 13.8% for the six months ended June 30, 2019, respectively.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations decreased from a gain of RMB12.4 million for the six months ended June 30, 2018 to a gain of RMB6.6 million for the six months ended June 30, 2019, primarily represented the foreign exchange gains on the cash and deposits denominated in the Hong Kong dollars and the U.S. dollars held by the Group's overseas subsidiaries whose functional currency is the Hong Kong dollars.

Total Comprehensive Income for the Period

As a result of the foregoing, the Group's total comprehensive income for the six months ended June 30, 2019 decreased by approximately 32.9% to RMB230.6 million from RMB343.9 million for the six months ended June 30, 2018.

Liquidity and Capital Resources

During the six months ended June 30, 2019, 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.

Capital Structure

As of June 30, 2019, the Group had net assets of approximately RMB4,032.6 million, as compared to RMB4,125.7 million as of December 31, 2018, comprising current assets of approximately RMB2,557.6 million, non-current assets of approximately RMB2,392.5 million, current liabilities of approximately RMB626.8 million and non-current liabilities of approximately RMB290.7 million.

As of June 30, 2019 and December 31, 2018, respectively, the Group had no borrowings from bank and financial institution.

Cash and Bank Balances

As compared with RMB1,671.1 million as of December 31, 2018, the Group had cash and bank balances of approximately RMB1,500.3 million as of June 30, 2019, which consisted of unrestricted cash and bank balances of approximately RMB294.8 million and term deposits with maturity over three months of approximately RMB1,205.5 million.

Financial Risks

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

Use of Proceeds from the Initial Public Offering

Net proceeds from the IPO (including the exercise of the over-allotment options on November 30, 2016), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering which the Company received amounted to approximately HK$2,792.3 million, comprising HK$2,428.1 million raised from the 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 RMB1,335.4 million as of December 31, 2018 and RMB1,123.7 million as of June 30, 2019, respectively.

The table below sets forth the use of proceeds by the Group as of June 30, 2019:

	Budget	Amount that had been utilized as of June 30, 2019	Amount that was used for the six months ended June 30, 2019	Remaining balance as of June 30, 2019	Expected timeline of utilization[1]
	(in RMB million)				
Construction and improvement of processing facilities	858.3	858.3	93.1	–	N/A
Development of retail store network	367.8	85.2	13.5	282.6	in six years
Brand image campaigns, including the e-commerce marketing campaigns	294.3	129.8	56.0	164.5	in four years
Improvement of research and development	245.2	17.0	5.5	228.2	N/A[2]
Acquisition and strategic alliances	245.2	17.9	–	227.3	N/A[2]
Upgrades of information technology systems, including the enterprise resource planning system	196.2	44.3	5.6	151.9	N/A[2]
General replenishment of working capital	245.2	176.0	38.0	69.2	in two years
Total	2,452.2	1,328.5	211.7	1,123.7	

(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, 2019, 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 June 30, 2019, 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.

Cash Flows

For the six months ended June 30, 2019, net cash generated from operating activities increased to approximately RMB469.4 million from RMB207.2 million for the six months ended June 30, 2018, which was mainly attributed to profit before tax of RMB294.6 million, adjusted for certain non-cash items such as depreciation and amortization of RMB161.9 million. Additional factors that affected net cash generated from operating activities included a decrease of RMB152.9 million in inventory, the income tax paid of RMB99.7 million, a decrease of RMB11.3 million in other payables and accruals, an increase of RMB13.6 million in prepayments, deposits and other receivable, an increase of RMB18.5 million in trade payables.

For the six months ended June 30, 2019, net cash generated from investing activities was approximately RMB151.0 million compared with net cash used in investing activities of RMB18.4 million for the six months ended June 30, 2018, which was mainly attributed to purchases of structured deposits of RMB1,355.0 million, purchases of property, plant and equipment of RMB220.1 million, partially offset by the proceeds from disposals of structured deposits of RMB1,329.0 million and a decrease of term deposits of maturity over three months of RMB359.6 million.

For the six months ended June 30, 2019, net cash used financing activities increased to approximately RMB434.2 million from RMB235.9 million for the six months ended June 30, 2018, which mainly represents the dividends paid in the amount of RMB326.2 million as well as the lease rental payments of RMB108.0 million.

Structured Deposits

The Group from time to time invests in asset management products, primarily structured deposits, in order to better facilitate its cash management. Structured deposits were principal-protected products which typically had a fixed short term and may be redeemed upon their respective expiry dates. As of June 30, 2019, the Group invested approximately RMB652.7 million of structured deposits (December 31, 2018: approximately RMB626.8 million). 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 be similar to placing deposits with banks whilst enabling the Group to earn a relatively higher rate of return. In the six months ended June 30, 2019, interest income from structured deposits amounted to approximately RMB12.3 million (June 30, 2018: approximately RMB22.3 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 make investments in low-risk products issued by qualified commercial banks or other financial institutions are allowed and the 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 that 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 are of the view that the structured deposits pose trivial 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 RMB212.6 million for the six months ended June 30, 2019, mainly in connection with the establishment and improvement of processing facilities, and the upgrades of self-operated retail stores. The Group financed its capital expenditures primarily with cash generated from operations and the proceeds from the IPO.

Contingent Liabilities and Guarantees

As of June 30, 2019, the Group did not have any significant contingent liabilities, guarantees or any litigation against it.

Major Investment

In the six months ended June 30, 2019, the Group did not conduct any material investments, acquisitions or disposals.

Turnover Ratios

Average inventory turnover days remained relatively stable at 68.0 days for the six months ended June 30, 2018 and 67.0 days for the six months ended June 30, 2019, respectively.

Average trade receivables turnover days increased from 2.7 days for the six months ended June 30, 2018 to 3.6 days for the six months ended June 30, 2019, primarily due to the increase of the payment settlement cycles of certain transport hub stores.

Average trade payables turnover days remained relatively stable at 22.3 days for the six months ended June 30, 2018 and 23.7 days for the six months ended June 30, 2019, respectively.

Employee and Labor Cost

As of June 30, 2019, the Group had a total of 4,933 employees, among which approximately 55.0% were retail store operations and sales staff and approximately 15.4% were manufacturing staff at its processing facilities.

For the six months ended June 30, 2019, the Group incurred total labor costs of RMB245.8 million, representing approximately 15.1% of total revenue of the Group.

Top Suppliers and Top Customers

For the six months ended June 30, 2019, purchases from the Group's largest duck supplier in terms of RMB amount accounted for approximately 9.6% of total purchase cost and the aggregate purchases from its top five duck suppliers in terms of RMB amount in aggregate accounted for approximately 25.8% of total purchase cost.

For the six months ended June 30, 2019, 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, 2019, the Group's reserves available for distribution to shareholders of the Company amounted to approximately RMB1,900.4 million.

Subsequent Events

No material events were undertaken by the Group subsequent to June 30, 2019 and up to August 27, 2019, being the date of this announcement.

FINANCIAL INFORMATION

The unaudited consolidated interim results of the Group for the six months ended June 30, 2019 are as follows:

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

For the six months ended June 30, 2019

	Notes	Six months ended June 30, 2019 RMB'000 (unaudited)	Six months ended June 30, 2018 RMB'000 (unaudited)
REVENUE	3	**1,625,947**	1,596,582
Cost of sales		**(717,314)**	(640,905)
Gross profit		**908,633**	955,677
Other income and gains, net	3	**60,502**	65,217
Finance cost		**(14,584)**	–
Selling and distribution expenses		**(551,251)**	(495,158)
Administrative expenses		**(101,290)**	(86,560)
Share of losses of an associate		**(7,435)**	–
PROFIT BEFORE TAX	4	**294,575**	439,176
Income tax expense	5	**(70,520)**	(107,665)
PROFIT FOR THE PERIOD		**224,055**	331,511
Attributable to:			
Owners of the parent		**224,055**	331,511
OTHER COMPREHENSIVE INCOME			
Exchange differences:			
Exchange differences on translation of foreign operations		**6,563**	12,410
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**6,563**	12,410
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**230,618**	343,921
Attributable to:			
Owners of the parent		**230,618**	343,921
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted (RMB)		**0.10**	0.14

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

	Notes	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,362,435**	1,189,966
Right-of-use assets		**564,888**	–
Prepaid land lease payments		**–**	128,898
Prepayments		**55,366**	49,404
Rental deposits		**85,373**	83,221
Other intangible assets		**34,566**	35,184
Investments in an associate	10	**237,710**	242,679
Deferred tax assets		**52,169**	46,726
Total non-current assets		**2,392,507**	1,776,078
CURRENT ASSETS			
Inventories	8	**190,880**	343,734
Trade receivables	9	**34,537**	30,866
Prepayments, deposits and other receivables		**167,329**	200,524
Due from the Controlling Shareholders		**–**	2,294
Structured deposits		**652,724**	626,756
Restricted cash		**11,746**	4,000
Cash in transit		**–**	760
Cash and bank	11	**1,500,325**	1,671,093
Total current assets		**2,557,541**	2,880,027
CURRENT LIABILITIES			
Trade payables	12	**103,535**	85,066
Other payables and accruals		**327,619**	328,826
Interest-bearing bank and other borrowings, current		**154,457**	–
Government grants, current		**1,455**	1,455
Income tax payable		**39,730**	66,874
Total current liabilities		**626,796**	482,221
NET CURRENT ASSETS		**1,930,745**	2,397,806
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,323,252**	4,173,884

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at June 30, 2019

	Notes	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**13,196**	9,821
Government grants, non-current		**42,304**	38,356
Interest-bearing bank and other borrowings, non-currents		**235,179**	–
Total non-current liabilities		**290,679**	48,177
NET ASSETS		**4,032,573**	4,125,707
EQUITY			
Equity attributable to owners of the parent			
Share capital		**16**	16
Treasury shares		**(263,525)**	(263,525)
Reserves		**4,296,082**	4,389,216
TOTAL EQUITY		**4,032,573**	4,125,707

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

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 ices 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**").

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 2019 have been prepared in accordance with HKAS 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the revised Hong Kong Financial Reporting Standards ("**HKFRSs**") and interpretations as of 1 January 2019, noted below.

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognize right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

- Relied on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review

- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease)
	RMB$'000 **(Unaudited)**
Assets	
Increase in right-of-use assets	590,397
Decrease in prepaid land lease payments	(128,898)
Decrease in prepayments, deposits and other receivables	(43,930)
Increase in total assets	417,569
Liabilities	
Increase in interest-bearing bank and other borrowings	417,569
Increase in total liabilities	417,569
Decrease in retained earnings	–

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB$'000 **(Unaudited)**
Operating lease commitments as at 31 December 2018	
Weighted average incremental borrowing rate as at 1 January 2019	4.76%
Discounted operating lease commitments as at 1 January 2019	476,723
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	59,154
Lease liabilities as at 1 January 2019	**417,569**

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received.Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of properties due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operation if a replacement is not readily available.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank and other borrowings"), and the movement during the period are as follow:

	Right-of-use assets			**Lease liabilities**
	Properties	**Prepaid land lease payment**	**Sub-total**	
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
As at 1 January 2019	461,499	131,724	593,223	417,569
Additions	79,172	864	80,036	79,172
Depreciation charge	(106,925)	(1,446)	(108,371)	–
Interest expense	–	–	–	14,584
Payments	–	–	–	(121,689)
As at 30 June 2019	433,746	131,142	564,888	389,636

The Group recognised rental expenses from short-term leases and variable lease payments not based on index or rate of RMB91,017,000 in total.

(b) Amendments to HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	Six months ended June 30,	
	2019	**2018**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Type of goods		
Vacuum-packaged products	**179,855**	141,455
Modified-Atmosphere-Packaged products	**1,433,223**	1,443,087
Other products	**12,869**	12,040
Total revenue from contracts with customers	**1,625,947**	1,596,582

The timing of the above revenue recognition is when goods were transferred at a point in time.

	Six months ended June 30,	
	2019	**2018**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Other income and gains, net		
Government grants*	**15,902**	13,631
Interest income from bank deposits	**30,841**	25,974
Interest income from financial assets at fair value through profit or loss	**–**	908
Interest income from structured deposits measured at FVPL	**12,345**	22,250
Fair value gain from structured deposits measured at FVPL	**491**	–
Gain/(loss) on foreign exchange	**(3,950)**	5,060
Loss on disposal of items of property, plant and equipment	**(149)**	(7,117)
Others	**5,022**	4,511
Total	**60,502**	65,217

* 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):

	Six months ended June 30,	
	2019	**2018**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Cost of inventories sold	**598,159**	541,717
Depreciation of property plant and equipment	**48,736**	34,749
Amortization of prepaid land lease payments	**–**	526
Amortization of other intangible assets	**4,836**	1,422
Amortization of right-of-use assets	**108,371**	–
Minimum lease payments under operating leases in respect of stores and plant premises	**91,017**	191,994
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**195,720**	176,762
Pension scheme contributions	**34,154**	28,353
Other welfare	**15,889**	12,508
Advertising and promotion expenses	**41,008**	30,278
E-commerce and online ordering platform related service and delivery fees	**70,919**	62,835
Fuel cost	**11,789**	8,638
Utility expenses	**20,451**	16,697
Transportation expenses	**41,078**	34,155
Loss on disposal of items of property, plant and equipment	**149**	7,117
Finance cost	**14,584**	–
Loss/(gain) on foreign exchange	**3,950**	(5,060)
Interest income from bank deposits	**(30,841)**	(25,974)
Interest income from financial assets at fair value through profit or loss	**–**	(908)
Fair value gain from structured deposits measured at FVPL	**(491)**	–
Interest income from structured deposits measured at FVPL	**(12,345)**	(22,250)

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.

5. INCOME TAX

The major components of income tax expenses are as follows:

	Six months ended June 30,	
	2019	**2018**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Current income tax in PRC	**72,588**	118,947
Deferred tax	**(2,068)**	(11,282)
Total tax charge for the period	**70,520**	107,665

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

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

The provision for current income tax in PRC is based on a statutory rate of 25% (six months ended June 30, 2018: 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% (six months ended June 30, 2018: 16.5%). No Hong Kong profits tax on the Group's subsidiary has been provided as there is no assessable profit arising in Hong Kong during the period.

6. INTERIM DIVIDENDS

The Directors of the Company proposed not to declare any interim dividend for the six months ended June 30, 2019. (June 30, 2018: Nil)

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,317,728,500 (six months ended 30 June 2018: 2,383,140,500 shares) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018.

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

	Six months ended June 30,	
	2019	**2018**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**224,056**	331,511
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,317,728,500**	2,383,140,500
Earnings per share:		
Basic and diluted (RMB)	**0.10**	0.14

8. INVENTORIES

	June 30, 2019	**December 31, 2018**
	RMB'000 (unaudited)	**RMB'000 (audited)**
At cost:		
Raw materials	**135,258**	278,250
Work in progress	**2,384**	6,299
Finished goods	**39,916**	41,427
Packaging materials	**13,322**	17,758
	190,880	343,734

9. TRADE RECEIVABLES

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Trade receivables	**34,537**	30,866
Less: Impairment provision	**–**	–
	34,537	30,866

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

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Within 3 months	**34,537**	30,866
Over 3 months	**–**	–
	34,537	30,866

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. INVESTMENT IN AN ASSOCIATE

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Share of net assets	**237,710**	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)	China	40.00	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 Capital Partnership(LLP), 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 as of December 31, 2018.

In March 2019, as a third-party limited partner newly invests into the fund with an initial subscription amount of RMB333,000,000, the Group's initial subscription amount of RMB500,000,000 represents 37.51% of the total initial subscription amount of this fund. The Group has contributed RMB250,000,000 as of June 30, 2019 (December 31, 2018: RMB250,000,000).

The following table illustrates the aggregate financial information of the Company's associate that are not individually material:

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Aggregate carrying amount of the Group's investment in the associate	**237,710**	242,679

11. CASH AND BANK

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Cash and cash in bank	**276,826**	106,029
Time deposits	**1,223,499**	1,565,064
	1,500,325	1,671,093
Less: term deposits with maturity over three months	**1,205,499**	1,565,064
Cash and cash equivalents	**294,826**	106,029

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB595,399,000 (December 31, 2018: RMB437,735,000).

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

12. 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:

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Within 3 months	**97,524**	84,104
3 to 6 months	**4,175**	284
Over 6 months	**1,778**	75
Over 12 months	**58**	603
	103,535	85,066

13. EVENTS AFTER THE REPORTING PERIOD

Subsequent to June 30, 2019 and up to the date of this announcement, no material events were undertaken by the Group.

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, 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2019, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") save as the below deviations.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company has appointed Mr. Zhou Fuyu ("**Mr. Zhou**"), the chairman of the Board (the "**Chairman**"), to be the chief executive officer of the Company (the "**CEO**") temporarily, with effect from May 16, 2019, until an appropriate succession candidate is found to be the CEO. The Board believes that vesting the roles of the Chairman and CEO in the same individual temporarily would enable the Company to achieve higher responsiveness, efficiency and effectiveness when executing business plans.

On August 27, 2019, Mr. Zhang Yuchen was appointed as the CEO and Mr. Zhou has stepped down from the position as CEO. The Company has complied with the CG Code without deviation thereafter.

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, 2019.

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, 2019.

INTERIM DIVIDEND

The Board proposed not to declare any interim dividend for the six months ended June 30, 2019 (June 30, 2018: 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 27, 2019

As at the date of this announcement, Mr. Zhou Fuyu, Mr. Hao Lixiao, Ms. Li Ying 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.