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, 2022

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		Period-over-Period
	2022	2021	Change
	RMB'000	RMB'000	%
Revenue	**1,181,078**	1,452,972	(18.7)
Gross profit	**671,529**	857,207	(21.7)
Profit before tax	**44,597**	318,638	(86.0)
Profit for the period attributable to owners of the parent	**18,377**	229,556	(92.0)

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,	
	2022	**2021**
Total number of retail stores	**3,160**	2,270
Total sales volume (tons)	**13,794**	17,762
Average spending per purchase order (RMB)	**59.13**	60.90

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

	Six Months Ended June 30,			
	2022		**2021**	
	RMB'000	%	RMB'000	%
Ducks and duck part products	**929,121**	**78.7**	1,271,302	87.5
Other products[1]	**235,583**	**19.9**	170,305	11.7
Franchise fees[2]	**16,374**	**1.4**	11,365	0.8
Total	**1,181,078**	**100.0**	1,452,972	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,			
	2022		**2021**	
	RMB'000	%	RMB'000	%
Self-operated retail stores[1]	**580,947**	**49.2**	897,220	61.8
Online channels	**225,634**	**19.1**	255,341	17.6
Franchisees[2]	**334,288**	**28.3**	238,926	16.4
Others[3]	**40,209**	**3.4**	61,485	4.2
Total	**1,181,078**	**100.0**	1,452,972	100.0

(1) Include revenue derived from online ordering and delivery services, products sold are typically picked up at the designated retail stores. Revenue derived from online ordering and delivery services accounted for approximately 26.5% and 20.3% of the revenue from self-operated retail stores in the six months ended June 30, 2022 and 2021, respectively.

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

(3) Primarily include revenue generated from 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, 2022. 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 2022, the COVID-19 pandemic continued to spread around the world. The frequency of pandemic outbreaks in Mainland China increased significantly, affecting a wider range of areas. China faced increasing pressure of "guarding against imported cases and preventing a resurgence of domestic outbreak", and the prevention and control situation became more serious and complex. At the same time, traffic flow in transportation hubs and traditional shopping districts fluctuated greatly due to the impact of the pandemic, significantly increasing downward pressure on the economy in the second quarter. In the first half of this year, the total retail sales of consumer goods showed a downward trend period-over-period, reflecting the continued depression of consumer sentiment. At the same time, the international situation was more uncertain, which was reflected in the significant slowdown in global economic growth, the rising prices of bulk commodities such as energy and food, the continuous rise of raw material costs, and a greater pressure on production and operation of enterprises. Therefore, the Group's performance in the first half of the year was also affected.

The recurrence of the pandemic and the continued global economic fluctuation are having a profound impact on the consumer industry. On the one hand, China's consumption structure and consumption preferences are facing profound changes. The shift of consumption mode and social isolation have caused continuous fluctuations in consumer traffic and lower-than-expected recovery. At the same time, the young generation has become the main consumer group, which pursues trendy, convenient and cost-effective products. On the other hand, the pandemic has resulted in more diversified consumption needs and stimulated industries to reform and innovate in terms of product categories. The end of Internet bonus, the change in online live streaming industry and the rapid rise of communal consumption require FMCG industry players to rearrange their sales channel and flexibly adjust their resource allocation. In the post-pandemic era, how to adapt to the changing market environment and identify new growth points will remain a long-term challenge for consumer goods retail enterprises.

In the post-pandemic era, enterprises that continuously explore new development areas based on consumer demands, identify more precise and segmented channels and traffic patterns and fully explore the potential consumption power in lower-tier markets and communities by expanding the overall scale of its existing channels, continue to innovate products, optimize consumer experience and realize supply chain synergy would be easier to achieve sustainable growth in all aspects.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

Retail Store Network Expansion and Optimization

In the first half of 2022, the Group further strengthened its expansion of offline stores in new markets and its penetration in mature markets. As of June 30, 2022, the Group had a total of 3,160 stores, including 1,342 self-operated stores and 1,818 franchised stores, covering 297 cities in 27 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 Retail Stores

	Six Months Ended June 30,			
	2022		**2021**	
	#	%	#	%
Central China[(1)]	**1,445**	**45.7**	1,062	46.8
Southern China[(2)]	**558**	**17.7**	417	18.4
Eastern China[(3)]	**384**	**12.2**	327	14.4
Northern China[(4)]	**455**	**14.4**	266	11.7
Western China[(5)]	**318**	**10.0**	198	8.7
Total	**3,160**	**100.0**	2,270	100.0

Revenue

	Six Months Ended June 30,			
	2022		2021	
	RMB'000	**%**	RMB'000	%
Central China[(1)]	**488,835**	**53.4**	664,850	58.5
Southern China[(2)]	**171,434**	**18.7**	183,648	16.2
Eastern China[(3)]	**93,957**	**10.3**	118,618	10.4
Northern China[(4)]	**95,630**	**10.4**	99,271	8.7
Western China[(5)]	**65,379**	**7.2**	69,758	6.2
Total	**915,235**	**100.0**	1,136,145	100.0

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

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

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

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

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

In the first half of 2022, under the impact of recurrence of the pandemic and the complex and volatile external market environment, the Group continued to promote the dual-drive mode of a deep integration of "self-operation + franchise", and further improved the coverage of offline stores to accommodate different consumption patterns. The Group actively expanded the "low-cost and flexible" stores, continued to dynamically optimize existing stores, and effectively improved the risk resistance capacity of its stores. The geographic coverage of offline stores was improved, and both self-operated and franchised businesses developed in a balanced and healthy way, enabling the Group to better adapt to the evolving market environment. As of June 30, 2022, the Group had a total of 3,160 stores.

In addition, in order to cope with the challenges brought by the recurrence of the pandemic, to better adapt to market development trends, and to constantly seek new ideas for sustainable store opening, the Group focused on exploring community store models in the first half of 2022 to seek new market opportunities in the post-pandemic era. As early community stores in Wuhan and other pilot cities achieved good results, the Group launched the "National Community Store Project" (百舸爭流 — 全國社區店項目) in early 2022, with the aim to expand the community store model throughout the country. As of June 30, 2022, the Group had a total of 561 national community stores.

The Group always adhered to the tenet of helping franchisees succeed and promoting a "community of common future" policy, and thereby issued a number of supportive policies during the pandemic. In the first half of 2022, the epidemic spread again. In order to protect the interests of franchisees, the Group constantly increased the scope and strength of the assistance offered to franchisees in terms of franchise fee, deposit and subsidy, so as to fully incentivise the franchisees to expand their stores and work together with the franchisees to overcome difficulties. As of June 30, 2022, the Group had contracted with approximately 500 franchisees and there were 1,818 franchised stores across the country.

Diversified Access to Consumers

In 2022, the Group continued to strengthen the core strategy of full pipeline coverage, to improve the pipeline layout and mix and to achieve differentiated development of multiple channels, and further explored the consumer demands of users while improving sales and brand power. In the first half of 2022, the revenue derived from Internet O&O business of the Group, i.e. the online and self-operated ordering and delivery businesses, accounted for 32.1% of the total interim revenue in 2022.

In the first half of 2022, the Group continued to carry out refined delivery services and operations, stimulating brand growth by focusing on strategies such as store differentiation, product differentiation, scenario differentiation and traffic release differentiation. At the same time, the Group actively carried out combined brand marketing, jointly initiated the "Super Brand Day" activity with sales platforms, effectively obtaining resources and information from the platforms, and accurately promoting product publicity. In addition, the Group also increased promotion efforts for the crayfish balls, one of the popular products, to promote growth of its popular branded products.

The Group actively adapted to new changes, and enhanced the overall layout of online emerging channels. In the field of fresh grocery e-commerce, the Group continued to optimize the layout of retail stores and achieved steady sales growth. As of June 30, 2022, the community fresh grocery channel covered more than 170 cities and over 4,000 front warehouses. On the e-commerce platforms which focused on live-streaming sales, the Group adopted the core strategy of "product attraction, KOL penetration, dual models of long-form video and short-form video (商品牽引、達人滲透、短直雙開)", and increased investment in live streaming e-commerce platforms such as Tik Tok (抖音) and Kuaishou (快手). At the same time, the Group continued to consolidate operation of its self-operated online stores and achieved good results. In the first half of 2022, the Group had over 5,000 hours of living streaming which attracted more than 0.5 billion views.

Brand Marketing and Product Innovation

The Group actively monitored the trend of consumer preferences, constantly improving product system, and creating new signature product series. The Group adopted the "one voice, one image, one Zhouheiya (一個聲音、一個形象、一個周黑鴨)" strategy to form a national uniformed marketing and promotion system, in order to fully strengthen brand image and consumer cognition.

In terms of product innovation, in the first half of 2022, the Group continued to adopt the strategy of creating signature products. Through resource integration, the Group successfully established a new signature product apart from duck products – crayfish balls, and created a new segmentation track of "eating crayfish with one hand", leading a new trend in the industry development. Even under the impact of the pandemic, the Group's crayfish ball products still achieved rapid growth in the first half of 2022, with the highest monthly sales exceeding 1 million boxes. In addition, the crayfish ball series had a nature of internet sensation on their own, which was of great significance for promoting brand rejuvenation.

In terms of brand marketing, the Group continued to adopt the marketing strategy of brand rejuvenation and accelerated brand image renewal. In early 2022, Ms. Yang Chaoyue (楊超越) was invited to be the Group's national brand spokesperson for the first time to promote crayfish balls. The Group designed and did advertisements, live streaming and product publicity around the spokesperson, together with a series of corresponding store activities, which successfully attracted a large number of fans and drew the attention of young customers and stimulated purchase from the new generation, thus achieving brand rejuvenation. In addition, the Group further optimized the omni-channel media marketing resources to establish a "content marketing center", forming a content marketing propagation matrix of Tik Tok (抖音), Little Red Book (小紅書), Weibo and WeChat (雙微), and expanding the breadth and depth of consumer recommendation on these platforms. Besides, the Group also strengthened the overall management of its store/delivery services, which gradually formed resultant force and effectively promoted sales.

Supply Chain Optimization

In the first half of 2022, as a result of the pandemic and global inflation, there was increased pressure from rising cost of raw materials. In view of this, the Group optimized the lean management system of OCM (operating cost management) cost control, continued to carry out whole chain management of procurement, production, warehouse and distribution and sales, maintained dynamic refined accounting, and continued to reduce costs and increase efficiency.

In terms of procurement, the Group improved the qualitative and quantitative price prediction model and established the "weekly price quotation and shelf sales ratio" (每周價盤及庫存動銷比) according to market changes in order to refine categories and guide more dynamic and precise purchasing decisions. In terms of production, the Group established an energy consumption management matrix, implemented cost control measures such as "self-operated technical reform of sewage treatment" (污水處理自營技改) and "improvement of the raw material value chain of products" (單品原料價值鏈改善), and dynamically controlled the consumption efficiency of various production resources in different output ranges. In terms of warehouse and distribution, the Group continued to optimize the agile logistics system, dynamically manage the "main, branch and matching" (幹、支、配) logistics lines, and systematically improve the warehouse and dynamic distribution route planning and transportation model, thus continuously reducing costs and increasing efficiency. In terms of sales, the Group conducted frequent and multi-level coordination meetings with the production and supply departments to timely adjust product mix and promotion plans in response to risks and opportunities brought about by market changes.

In terms of production capacity, the overall production arrangement of the Group is still focused on the five major processing facilities in China. The Group has now established four processing facilities at a cleanroom classification standard of 100,000-class with high automation in northern, central, southern and eastern China. The processing facility in western China will be put into operation in the second half of 2022, by which the production capacity of the five major processing facilities will be sufficient to support the demand of front-line operations, and can be flexibly deployed so as to the improve delivery efficiency of stores.

Organizational Capacity Enhancement

The Group always believes that strong organizational capacity is the embodiment of the Group's vitality and the source of its competitiveness. In 2022, the Group focused on themes such as crisis management, cost reduction and increased efficiency. The Group concentrated on improving management thinking and enhancing organizational and management efficiency through arranging a variety of innovative training based on the different needs of its management and junior employees. It released the "Development Manual for Retail Terminal Personnel", promoting the comprehensive skills of junior employees in actual business scenarios and implementing standardization in management. In the first half of 2022, the Group conducted a new corporate culture co-creation workshop, formed a new version of mission, vision and values and comprehensively enhanced its corporate culture. At the same time, in order to focus on the current internal and external environment changes, the Group interpreted its leadership model and practice, and launched the "White Book for Zhou Hei Ya Management" as a guide for talent leadership, establishing standards and benchmarks to effectively improve organizational management.

In order to incentivise its employees, the Group adopted a diversified approach. The Group implemented the employee incentive plan in 2020 and expanded the scope of its incentives, granting the third batch of restricted share units on March 31, 2022. As of June 30, 2022, the Group has awarded an aggregate of 26,792,953 ordinary shares of the Company to 212 selected persons of the Group as incentive-based shares, where the actual number of shares awarded was subject to adjustments based on the achievement of performance of the Group and its employees. In addition, based on its annual business strategy, the Group created of the "living water" plan (「活水」計劃) to dynamically balance the organizational performance indicators. At the same time, multiple incentive mechanisms were set up to create a performance competition atmosphere and stimulate the enthusiasm of front-line employees.

Industry and Business Outlook

Throughout this year, international commodity prices, especially food and energy prices, have remained at high level, and the impact of imported inflation in China has increased. The recurrence of the pandemic has had a great impact on the domestic economic operation, triggering changes in consumption preferences and habits, and has brought new opportunities for market expansion. Looking at the next half of the year, the current risk of global economic stagnation is increasing, and there are still many uncertain factors affecting domestic economic recovery. However, in the long run, the Group remains confident of an economic recovery and healthy domestic growth.

The Group estimates that the prolonged pandemic will have an adverse impact on its operation and in turn affecting its financial performance in the short run. However, in the long run, the Group is still optimistic about its development in the industry. The Group will enhance management by optimizing channel and traffic patterns to strengthen contact with consumers, continuously creating popular products, strengthening brand strength, improving supply chain effectiveness, and optimizing and upgrading organizational capacity, so as to build a sustainable competitiveness with resilient growth and achieve sustainable development.

In the second half of 2022, the Group will:

- accelerate the expansion of "low-cost and flexible" stores, and promote community layout and lower-tier market coverage;
- strengthen the construction of digital intelligence, and diversified access to consumers in depth;
- continuously implement brand rejuvenation strategy to create new signature products;
- improve whole chain management model of its supply chain to continuously reduce costs and increase efficiency; and
- improve the matching degree of talent and strategy and stimulate organizational capacity to improve its efficiency.

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, 2021 over the six months ended June 30, 2022 (expressed in percentages).

	For the six months ended June 30,				Period-over-Period Change
	2022		**2021**		
	RMB'000	**%**	RMB'000	%	%
Revenue	**1,181,078**	**100.0**	1,452,972	100.0	(18.7)
Cost of sales	**(509,549)**	**(43.1)**	(595,765)	(41.0)	(14.5)
Gross profit	**671,529**	**56.9**	857,207	59.0	(21.7)
Other income and gains, net	**20,583**	**1.7**	92,745	6.4	(77.8)
Finance costs	**(31,282)**	**(2.6)**	(32,140)	(2.2)	(2.7)
Selling and distribution expenses	**(505,221)**	**(42.8)**	(500,145)	(34.4)	1.0
Administrative expenses	**(134,873)**	**(11.4)**	(120,302)	(8.3)	12.1
Share of profits and losses of associates	**23,861**	**2.0**	21,273	1.5	12.2
Profit before tax	**44,597**	**3.8**	318,638	21.9	(86.0)
Income tax expense	**(26,220)**	**(2.2)**	(89,082)	(6.1)	(70.6)
Profit for the period	**18,377**	**1.6**	229,556	15.8	(92.0)
Attributable to Owners of the parent	**18,377**	**1.6**	229,556	15.8	(92.0)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic and diluted earnings per share (RMB)	**0.01**		0.10		(90.0)
Net profit margin		**1.6**		15.8	
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences:					
Exchange differences on translation of foreign operations	**(13,047)**	**(1.1)**	3,215	0.2	(505.8)
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(13,047)**	**(1.1)**	3,215	0.2	(505.8)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:					
Translation from functional currency to presentation currency	**32,559**	**2.8**	(9,620)	(0.7)	(438.5)

	For the six months ended June 30,				Period-over-Period Change
	2022		**2021**		
	RMB'000	**%**	RMB'000	%	%
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**32,559**	**2.8**	(9,620)	(0.7)	(438.5)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**19,512**	**1.7**	(6,405)	(0.4)	(404.6)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**37,889**	**3.2**	223,151	15.4	(83.0)
Attributable to:					
Owners of the parent	**37,889**	**3.2**	223,151	15.4	(83.0)

Revenue

The Group's total revenue decreased by approximately 18.7% from RMB1,453.0 million for the six months ended June 30, 2021 to RMB1,181.1 million for the six months ended June 30, 2022, primarily due to the intensification of the COVID-19 pandemic in the first half of the year, with the outbreak of the highly transmissible Omicron mutant strain in many parts of the country, affecting nearly 20 provinces and the seriousness of the epidemic in Shenzhen, Shanghai, Beijing and Guangzhou, resulting in a sudden drop in the flow of travelers and a severe impact on the consumption of transportation and travel gatherings, leading to a sharp drop in the passenger flow of retail stores and a serious drop in sales. However, the Group closely followed the changing trend of the market, continued to promote the upgrade of the business model of "self-operation + franchise", and made every effort to develop the franchise business. For the six months ended June 30, 2022, sales derived from franchisees increased by approximately 39.9% from the corresponding period in 2021.

Cost of Sales

Cost of sales decreased by approximately 14.5% from RMB595.8 million for the six months ended June 30, 2021 to RMB509.5 million for the six months ended June 30, 2022, primarily due to the overall decrease in sales, which was in line with the decline in sales mainly caused by the impact of the COVID-19 pandemic.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit decreased by 21.7% from RMB857.2 million for the six months ended June 30, 2021 to RMB671.5 million for the six months ended June 30, 2022. The Group's gross profit margin decreased from 59.0% for the six months ended June 30, 2021 to 56.9% for the six months ended June 30, 2022.

Other Income and Gains, Net

The Group's other income and gains, net decreased by 77.8% from RMB92.7 million for the six months ended June 30, 2021 to RMB20.6 million for the six months ended June 30, 2022, the decrease was primarily due to (i) a decrease of RMB15.5 million in interest income from bank deposits; (ii) a decrease of RMB26.4 million fair value gain/(loss) on structured deposits measured at fair value through profit or loss (or "**FVTPL**") and other financial assets measured at FVTPL; (iii) a decrease of RMB46.5 million from disposal of property and plant; (iv) a decrease of RMB34.8 million from (loss)/gain on foreign exchange differences; (v) a decrease of RMB14.6 million from income from structured deposits measured at FVTPL and other financial assets measured at FVTPL, partially offset by a decrease of RMB19.7 million from the loss on changes in the fair value of convertible bonds, RMB32.4 million from government grants and RMB13.5 million from gain from repurchase of convertible bonds.

Finance Costs

The finance costs of the Group decreased by 2.7% from RMB32.1 million for the six months ended June 30, 2021 to RMB31.3 million for the six months ended June 30, 2022, mainly attributable to a decrease in interest expense in connection with the repurchase of the 10% convertible bonds.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 1.0% from RMB500.1 million for the six months ended June 30, 2021 to RMB505.2 million for the six months ended June 30, 2022. It was mainly due to a decrease in delivery fees related to the Group's online sales, offset by the increase in salary and welfare for selling personnel and transportation expenses due to expansion in geographic coverage.

Administrative Expenses

The Group's administrative expenses increased by approximately 12.1% from RMB120.3 million for the six months ended June 30, 2021 to RMB134.9 million for the six months ended June 30, 2022. The increase was mainly due to the further implementation of the employee incentive plan.

Shares of Profits and Losses of Associates

For the six months ended June 30, 2022, the Group incurred share of profits of associates of RMB23.9 million mainly in connection with the 25% equity interest (29.46% prior to February 2021, diluted to 27.28% from March to August 2021, and further diluted to 25% in September 2021) in Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) (the "**Tiantu Partnership**"), which was jointly established by the Group and two subsidiaries of Tian Tu Capital Co., Ltd., resulting from fair value gains on the associate's investees and partially net off by the administration expenses. The change in the Group's equity interest in Tiantu Partnership was due to the new capital paid-in from other partners in February to August 2021.

Profit Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB44.6 million for the six months ended June 30, 2022, compared to a profit before tax of RMB318.6 million for the six months ended June 30, 2021.

Income Tax Expense

The Group incurred income tax expense of RMB26.2 million for the six months ended June 30, 2022, compared to RMB89.1 million for the six months ended June 30, 2021, as a result of the profit incurred in such period.

Profit for the Period

As a result of the foregoing, the Group recorded net profit of RMB18.4 million for the six months ended June 30, 2022, as compared to a net profit of RMB229.6 million for the six months ended June 30, 2021.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations was a gain of RMB19.5 million for the six months ended June 30, 2022, as compared to a loss of RMB6.4 million for the six months ended June 30, 2021. 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 for the Period

As a result of the foregoing, the Group's total comprehensive income for the six months ended June 30, 2022 amounted to RMB37.9 million, as compared to a total comprehensive income of RMB223.2 million for the six months ended June 30, 2021.

Liquidity and Capital Resources

During the six months ended June 30, 2022, 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.

In April 2022, the Company repurchased a principal amount of HK$155.0 million of the Convertible Bonds with the rights to convert into 14,903,846 shares of the Company, representing 10% of the aggregate principal amount of the Convertible Bonds originally issued. In July 2022, the Company further repurchased an aggregate principal amount of HK$105.0 million of the Convertible Bonds with the rights to convert into 10,489,510 shares of the Company, representing approximately 6.77% of the aggregate principal amount of the Convertible Bonds originally issued. The repurchases were funded by internal resources of the Group. Please refer to the announcements of the Company dated April 11, 2022 and July 19, 2022 for more details.

Capital Structure

As of December 31, 2021 , the Group had net assets of RMB4,210.3 million, as compared to RMB4,030.8 million as of June 30, 2022, comprising current assets of approximately RMB3,674.2 million, non-current assets of approximately RMB2,900.0 million, current liabilities of approximately RMB1,026.2 million and non-current liabilities of approximately RMB1,517.3 million.

As of December 31, 2021 and June 30, 2022, 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 RMB2,101.3 million as of December 31, 2021, the Group had cash and bank balances of approximately RMB1,142.5 million as of June 30, 2022, which consisted of unrestricted cash and bank balances of approximately RMB628.3 million and term deposits of approximately RMB514.2 million.

Financial Risks

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

Use of Proceeds from the 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 Global Offering and HK$364.2 million from the issuance of shares pursuant to the exercise of the over-allotment options, respectively. The remaining balance of the proceeds from the IPO as of December 31, 2021 and June 30, 2022 were RMB469.2 million and RMB281.5 million, 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, 2022:

	Budget	Amount that had been utilized as of December 31, 2021	Amount that was used for the six months ended June 30, 2022	Remaining balance as of June 30, 2022	Expected timeline of utilization [1]
				(in RMB million)	
Construction and improvement of processing facilities	1,258.3	1,158.5	99.8	–	Used up
Development of retail store network	167.8	160.9	6.9	–	Used up
Brand image campaigns, including the e-commerce marketing campaigns	394.3	296.3	38.7	59.3	Expected to be used up in one year
Improvement of research and development	45.2	45.2	–	–	Used up
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	68.2	10.3	17.7	Expected to be used up in one year
General replenishment of working capital	345.2	236.0	32.0	77.2	Expected to be used up in two years
Total	**2,452.2**	**1,983.0**	**187.7**	**281.5**	

(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, 2022, 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.

The table below sets forth the use of proceeds by the Group as of June 30, 2022:

	Initial budget	Adjusted budget[1]	Amount that had been utilized as of December 31, 2021	Amount that was used in for six months ended June 30, 2022	Remaining balance as of June 30, 2022	Expected timeline of utilization
			(in RMB million)			
Further penetration in existing markets and exploration of new business opportunities	1,133.4	1,018.5	267.5	11.5	739.5	Expected to be used up in three years
Enhancement of product innovation, research and development capabilities	60.0	53.9	–	–	53.9	Expected to be used up in three years
Working capital and general corporate purposes	50.0	44.9	–	–	44.9	Expected to be used up in three years
Total	**1,243.4**	**1,117.3**	**267.5**	**11.5**	**838.3**	

(1) Taking into account the aggregate repurchased amounts as of June 30, 2022.

As of June 30, 2022, net proceeds not utilized had been deposited into short-term deposits and money market instruments, including structured deposits.

Indebtedness

As of June 30, 2022, the Group had an aggregate bank borrowings of RMB310.0 million, all of which will be due within one year. Such outstanding bank borrowings were bearing fixed interest rates and denominated in Renminbi.

The Group uses the gearing ratio (total liabilities/total assets) to monitor its capital structure. As of June 30, 2022, the gearing ratio of the Group increased from 36.6% as of December 31, 2021 to 38.7% as of June 30, 2022, mainly due to the repurchase of 10% Convertible Bonds in April 2022 and the increase of bank borrowings of RMB260.0 million for business operations.

Pledged Assets

As of June 30, 2022, the Group had pledged bank deposits of RMB100 million (December 31, 2021: Nil), which were pledged as securities for the short-term bank borrowings of RMB100 million (December 31, 2021: Nil).

Cash Flows

For the six months ended June 30, 2022, net cash generated from operating activities decreased to approximately RMB321.9 million from RMB322.3 million for the six months ended June 30, 2021, which was mainly attributable to profit before tax of RMB44.6 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. Additional factors that affected net cash generated from operating activities included: (i) profit before tax decreased by RMB274.0 million, while income tax paid increased by RMB2.9 million; (ii) inventory decreased by RMB112.3 million mainly due to increased production activities and precise purchasing decisions; (iii) other payables and accruals decreased by RMB70.1 million; (iv) a decrease in trade payables of RMB3.1 million; and (v) an increase in mid-year trade receivables of RMB3.4 million.

For the six months ended June 30, 2022, net cash generated from investing activities was approximately RMB368.6 million, compared with RMB25.8 million for the six months ended June 30, 2021, which was mainly attributable to (i) purchases of structured deposits and financial assets at fair value through profit or loss in the aggregate amount of RMB3,357.1 million, (ii) purchase of items of property, plant and equipment and intangible assets in the aggregate amount of RMB111.9 million, partially offset by (i) redemption of structured deposits and financial assets measured at FVTPL in the aggregate amount of RMB2,465.3 million, (ii) a decrease of term deposits of maturity over three months of RMB1,325.1 million; and (iii) interest from structured deposits and other financial assets measured as fair value through profit or loss of RMB10.3 million.

For the six months ended June 30, 2022, net cash used in financing activities was approximately RMB341.6 million, compared with RMB224.8 million for the six months ended June 30, 2021, (i) dividends paid in the amount of RMB236.3 million in 2022; (ii) repurchase of Convertible Bonds RMB113.9 million; and (iii) lease rental payments of RMB153.8 million.

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 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, 2022, the Group had a balance of structured deposits and financial assets measured at FVTPL in the amount of approximately RMB2,137.0 million. Up to the date of this announcement, approximately RMB892.1 million out of the RMB2,137.0 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, 2022, interest income from structured deposits and financial assets measured at FVTPL amounted to RMB10.3 million (six months ended June 30, 2021: approximately RMB24.9 million).

As of June 30, 2022, the Group had a balance of non-current financial asset measured at FVTPL in the amount of approximately RMB120.0 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 is only entitled to invest low-risk products issued by qualified commercial banks or other financial institutions, and investments should be non-speculative in nature. The Group's capital and investment policies also specify the criteria for selecting investments to be considered and the detailed review procedures each proposed investment shall go through.

In view of an upside of earning a relatively higher return than current saving or fixed deposit rate under the low interest rate trend, as well as considering the relatively short term of maturity of the structured deposits which are generally low risk in nature, the Directors are of the view that the structured deposits generally do not pose a material 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 RMB111.9 million for the six months ended June 30, 2022, 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, 2022, 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, 2022 and in the period subsequent to June 30, 2022 and up to August 23, 2022, 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, 212 selected persons had received the RSUs representing 26,792,953 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 6,188,680 shares; and (ii) 210 selected persons who are employees of the Group had received RSUs representing 20,604,273 shares. The underlying shares concerned represented 1.0% of the Company's issued shares.

Please refer to the Company's announcements dated July 25, 2018, July 31, 2018, October 24, 2018 and July 5, 2021 for a detailed summary of its RSU Scheme and the announcements dated April 20, 2020, February 1, 2021, March 25, 2021 and March 31, 2022 for the details in connection with the grants of the RSUs.

Turnover Ratios

Average inventory turnover days increased from 82.6 days for the six months ended June 30, 2021 to 93.9 days for the six months ended June 30, 2022, mainly due to slower turnover of raw materials and finished goods with slowdown in production activities in the first half of the year resulting from the COVID-19 pandemic.

Average trade receivables turnover days increased from 8.5 days in the six months ended June 30, 2021 to 11.5 days in the six months ended June 30, 2022, primarily due to the slightly longer credit terms granted to certain e-commerce platforms when the Group changes its cooperation with them in 2022.

Average trade payables turnover days decreased from 27.5 days for the six months ended June 30, 2021 to 27.0 days for the six months ended June 30, 2022, remaining relatively stable.

Employee and Labor Cost

As of June 30, 2022, the Group had a total of 4,185 employees, among which approximately 61.4% were retail store operations and sales staff and approximately 21.2% were manufacturing staff at its processing facilities.

The Group has developed a performance evaluation system to assess the performance of its employees annually, which forms the basis for determining the salary levels, bonuses and promotions an employee may receive. Sales and marketing personnel may also receive bonuses based on the sales targets they 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, 2022, the Group incurred total labor costs of RMB239.6 million, representing approximately 20.3% of total revenue of the Group over the same period.

Top Suppliers and Top Customers

For the six months ended June 30, 2022, purchases from the Group's largest duck supplier in terms of RMB amount accounted for approximately 11.2% of total purchase cost and the aggregate purchases from its top five duck suppliers in terms of RMB amount in aggregate accounted for approximately 32.5% of total purchase cost.

For the six months ended June 30, 2022, 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, 2022, the Group's reserves available for distribution to shareholders of the Company amounted to approximately RMB1,290.7 million.

Subsequent Events

Subsequent to June 30 2022 and up to the date of this announcement, the Group has repurchased an aggregate principal amount of HK$105.0 million of the Convertible Bonds.

Other than the above-mentioned matter, no material events were undertaken by the Group subsequent to June 30, 2022 and up to August 23, 2022, being the date of this announcement.

FINANCIAL INFORMATION

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

For the six months ended 30 June 2022

	Notes	2022	2021
		RMB'000 (unaudited)	**RMB'000 (unaudited)**
REVENUE	4	**1,181,078**	1,452,972
Cost of sales		**(509,549)**	(595,765)
Gross profit		**671,529**	857,207
Other income and gains, net	4	**20,583**	92,745
Finance costs		**(31,282)**	(32,140)
Selling and distribution expenses		**(505,221)**	(500,145)
Administrative expenses		**(134,873)**	(120,302)
Share of profits and losses of associates		**23,861**	21,273
PROFIT BEFORE TAX	5	**44,597**	318,638
Income tax expense	6	**(26,220)**	(89,082)
PROFIT FOR THE PERIOD		**18,377**	229,556
Attributable to:			
Owners of the parent		**18,377**	229,556
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	8	**0.01**	0.10

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

For the six months ended 30 June 2022

	Notes	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**(13,047)**	3,215
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(13,047)**	3,215
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**32,559**	(9,620)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**32,559**	(9,620)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**19,512**	(6,405)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**37,889**	223,151
Attributable to:			
Owners of the parent		**37,889**	223,151

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022	31 December 2021
		RMB'000 (unaudited)	RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,457,037**	1,438,185
Right-of-use assets		**497,160**	481,026
Investment in associates		**579,632**	569,271
Prepayments		**38,054**	37,530
Rental deposits		**94,779**	94,575
Other intangible assets		**24,411**	25,282
Other financial assets at fair value through profit or loss, non-current		**120,000**	120,000
Equity investments designated at fair value through other comprehensive income		**2,500**	–
Deferred tax assets		**86,446**	84,145
Total non-current assets		**2,900,019**	2,850,014
CURRENT ASSETS			
Inventories		**209,628**	321,937
Trade receivables	9	**76,999**	73,571
Prepayments, other receivables and other assets		**127,574**	172,860
Structured deposits		**557,324**	454,499
Other financial assets at fair value through profit or loss, current		**1,459,664**	662,809
Restricted cash		**100,000**	–
Cash in transit		**539**	1,092
Cash and bank balances		**1,142,502**	2,101,253
Total current assets		**3,674,230**	3,788,021
CURRENT LIABILITIES			
Interest-bearing bank borrowings, current		**310,000**	50,000
Derivative financial instruments		**42,139**	34,278
Trade payables	10	**74,879**	77,933
Other payables and accruals		**382,628**	466,432
Government grants, current		**2,432**	2,372
Lease liabilities, current		**199,946**	189,551
Income tax payable		**14,154**	46,346
Total current liabilities		**1,026,178**	866,912
NET CURRENT ASSETS		**2,648,052**	2,921,109
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,548,071**	5,771,123

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2022

	Notes	30 June 2022	31 December 2021
		RMB'000 (unaudited)	RMB'000 (audited)
NON-CURRENT LIABILITIES			
Convertible bonds		**1,174,736**	1,233,353
Other payables and accruals, non-current		**37,154**	36,105
Deferred tax liabilities		**67,344**	55,409
Government grants, non-current		**50,554**	51,298
Lease liabilities, non-current		**187,499**	184,650
Total non-current liabilities		**1,517,287**	1,560,815
Net assets		**4,030,784**	4,210,308
EQUITY			
Equity attributable to owners of the parent			
Share capital	11	**16**	16
Treasury shares		**(324,459)**	(341,445)
Reserves		**4,355,227**	4,551,737
Total equity		**4,030,784**	4,210,308

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 an office of Intertrust Corporate Services (Cayman) Limited, located at 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 2022 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 2021.

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 2021, 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 3	*Reference to the Conceptual Framework*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

(a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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 all of the Group's non-current assets were located in Mainland China, no geographical information in accordance with HKFRS 8 – *Operating Segments* is presented.

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2022	2021
	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue from contracts with customers	**1,181,078**	1,452,972

Revenue from contracts with customers

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2022	2021
	RMB'000 (unaudited)	RMB'000 (unaudited)
Types of goods or service		
Modified-Atmosphere-Packaged products	**1,008,533**	1,267,331
Vacuum-packaged products	**116,617**	159,891
Franchise fees of retail stores	**16,374**	11,365
Other products	**39,554**	14,385
Total revenue from contracts with customers	**1,181,078**	1,452,972

	For the six months ended 30 June	
	2022	2021
	RMB'000 (unaudited)	RMB'000 (unaudited)
Timing of revenue recognition		
Goods transferred at a point in time	**1,164,704**	1,441,607
Service transferred over time	**16,374**	11,365
Total revenue from contracts with customers	**1,181,078**	1,452,972

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	
	2022	**2021**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**25,380**	18,372
Franchise fee	**6,934**	2,661
	32,314	21,033

(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:

	2022	**2021**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Amounts expected to be recognised as revenue:		
Within one year	**42,763**	24,518
After one year	**37,154**	31,052
	79,917	55,570

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

	For the six months ended 30 June	
	2022	**2021**
	RMB'000 **(unaudited)**	**RMB'000** **(unaudited)**
Interest income from bank deposits	**8,138**	23,636
Interest income from structured deposits	**5,283**	4,141
Interest income from other financial assets at FVTPL	**5,043**	20,768
Fair value gain on structured deposits measured at FVTPL	**1,199**	3,721
Fair value (loss)/gain on other financial assets at FVTPL	**(20,041)**	3,850
Fair value gain on derivative instruments – transactions not qualifying as hedges	**–**	2,330
Fair value loss on financial instruments – embedded derivative component of convertible bonds	**(9,870)**	(29,556)
Gain on disposal of items of property, plant and equipment, net	**1,706**	48,218
Gain on disposal of items of right-of-use assets	**5,013**	285
(Loss)/gain on foreign exchange differences	**(27,701)**	7,144
Gain from repurchase of convertible bonds	**13,496**	–
Government grants*	**34,721**	2,278
Others	**3,596**	5,930
Total	**20,583**	92,745

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

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2022	2021
	RMB'000 (unaudited)	RMB'000 (unaudited)
Cost of inventories sold	**408,956**	483,377
Depreciation of property, plant and equipment	**62,859**	59,575
Depreciation of right-of-use assets	**147,876**	140,613
Amortization of other intangible assets	**6,210**	5,949
Auditors' remuneration	**1,200**	1,090
Lease payments not included in the measurement of lease liabilities	**28,385**	35,587
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**179,063**	174,627
Equity-settled share-based payment expense, net	**15,344**	8,872
Pension scheme contributions	**31,603**	26,148
Other welfare	**13,555**	12,637
	239,565	222,284
Advertising and promotion expenses	**18,518**	20,533
E-commerce and online ordering platform related service and delivery fees	**70,005**	94,145
Fuel cost	**7,393**	8,794
Utility expenses	**17,320**	16,971
Share of profits and losses of associates	**(23,861)**	(21,273)
Transportation expenses	**45,325**	38,726
Finance cost	**31,282**	32,140
Loss/(gain) on foreign exchange	**27,701**	(7,144)
Interest income from bank deposits	**(8,138)**	(23,636)
Interest income from structured deposits	**(5,283)**	(4,141)
Interest income from other financial assets at FVTPL	**(5,043)**	(20,768)
Fair value gain on structured deposits measured at FVTPL	**(1,199)**	(3,721)
Fair value loss/(gain) on other financial assets measured at FVTPL	**20,041**	(3,850)
Fair value loss on derivative instruments – embedded derivative component of convertible bonds	**9,870**	29,556
Gain on disposal of items of property, plant and equipment	**(1,706)**	(48,218)
Gain from repurchase of convertible bonds	**(13,496)**	–
Gain on disposal of items of right-of-use assets	**(5,013)**	(285)
Fair value gain on derivative instruments – transactions not qualifying as hedges	**–**	(2,330)
Government grants	**(34,721)**	(2,278)

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. INCOME TAX

The major components of income tax expenses are as follows:

	For the six months ended 30 June	
	2022	**2021**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Current – PRC		
Charge for the year	**17,536**	73,333
(Overprovision)/Underprovision in prior year	**(950)**	654
	16,586	73,987
Deferred tax	**9,634**	15,095
Total tax charge for the period	**26,220**	89,082

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.

The provision for current income tax in the PRC is based on a statutory rate of 25% (2021: 25%) of the assessable profits of the subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law. Hubei Zhou Hei Ya Limited Foods Industrial Park Co., Ltd. is accredited as "High and New Technology Enterprise", and therefore entitled to a preferential income tax rate of 15% for the year ended 31 December 2021. Such qualifications are subject to be reviewed by the relevant tax authority in the PRC for every three years.

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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 (six months ended 30 June 2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (six months ended 30 June 2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2021: 16.5%). No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the period.

7. INTERIM DIVIDENDS

The Directors of the Company proposed not to declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

8. EARNINGS 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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,320,866,746 (six month ended June 30 2021: 2,317,807,523) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period 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 period, 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	
	2022	**2021**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**18,377**	229,556
Add: Interest on convertible bonds	**20,264**	20,788
Fair value loss on the derivative component of the convertible bonds	**9,870**	29,556
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**48,511**	279,900
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,320,866,746**	2,317,807,523
Effect of dilution – weighted average number of ordinary shares:		
Restricted share unit scheme	**4,626,988**	3,878,518
Convertible bonds	**134,134,615**	149,038,462
	2,459,628,349*	2,470,724,503*
Earnings per share:		
Basic (RMB)	**0.01**	0.10
Diluted (RMB)	**0.01**	0.10

* 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 and the profit attributable to ordinary equity holders of the parent of RMB18,377,000, and the weighted average number of ordinary shares of 2,325,493,734 in issue during the period.

9. TRADE RECEIVABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	**78,334**	74,906
Less: Impairment provision	**(1,335)**	(1,335)
	76,999	73,571

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within 3 months	**61,756**	57,554
3 to 12 months	**7,617**	15,434
Over 1 year	**7,626**	583
	76,999	73,571

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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within 3 months	**65,157**	69,719
3 to 6 months	**8,091**	6,779
6 to 12 months	**912**	742
Over 12 months	**719**	693
	74,879	77,933

The trade payables are non-interest-bearing.

11. SHARE CAPITAL

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Authorised:		
50,000,000,000 shares of USD0.000001 each (31 December 2021: 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 2021: 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
At 1 January 2020, 31 December 2020 and 1 January 2021 (audited)	2,383,140,500	16	(263,525)
Repurchased of shares	–	–	(83,286)
Exercise of equity-settled share – based payment arrangement	–	–	5,366
At 31 December 2021 and 1 January 2022 (audited)	2,383,140,500	16	(341,445)
Issue of shares under Exercise of equity-settled share – based payment arrangement	–	–	16,986
At 30 June 2022 (unaudited)	2,383,140,500	16	(324,459)

12. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2022 and up to the date of this announcement, the Group has repurchased an aggregate principal amount of HK$105,000,000 of the Convertible Bonds.

OTHER INFORMATION

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

On November 5, 2020, the Company issued HK$1,550,000,000 Convertible Bonds on the Hong Kong Stock Exchange, which were listed and traded on the Hong Kong Stock Exchange since November 5, 2020 and will mature on November 5, 2025. In accordance with the terms and conditions of the Convertible Bonds, on April 8, 2022, the Company repurchased a principal amount of HK$155,000,000 of the Convertible Bonds at an average repurchase price of HK$900,000 per HK$1,000,000 principal amount of the Convertible Bonds (i.e. at 90% of the face value of the Convertible Bonds). For details, please refer to the Company's announcement dated April 11, 2022.

Save as disclosed above, 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, 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2022, 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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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, 2022.

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. CHEN Chen, Mr. CHAN Kam Ching, Paul and Mr. LU Weidong. Mr. CHEN Chen is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed the Interim Results for the six months ended June 30, 2022.

INTERIM DIVIDEND

The Board proposed not to declare any interim dividend for the six months ended June 30, 2022 (June 30, 2021: 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 23, 2022

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. CHAN Kam Ching, Paul, Mr. LU Weidong and Mr. CHEN Chen are the independent non-executive Directors.