



Zhou Hei Ya International Holdings Company Limited

1H17 Interim Results Announcement

August 2017

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Section 1

Results Highlights

1H17 Key Highlights

Store Network Expansion in Strategic Locations Accelerates Market Penetration Nationwide

Boost Sales Through Enrichment of Product Type by Developing New Products Such as Crayfish

Strengthen Branding and Marketing Through Multiple Channels to Enhance Company Reputation

Enhance Co-operation With E-commerce to Drive Further Growth of O2O Business

Strong Financial Performance, With Stable Growth in Revenue and Profit

Key Financials

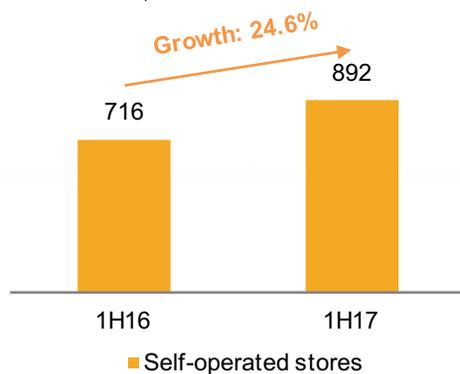
Financial Summary

(RMB '000)

	1H16	1H17	Y-o-Y Growth
Revenue	1,389,135	1,618,306	16.5%
Gross profit	871,031	985,920	13.2%
Profit before tax	510,169	526,795	3.3%
Net profit	380,739	401,034	5.3%
Adjusted net profit ⁽¹⁾⁽²⁾	384,087	409,059	6.5%
Basic EPS (RMB)	0.20	0.17	(15.0%)

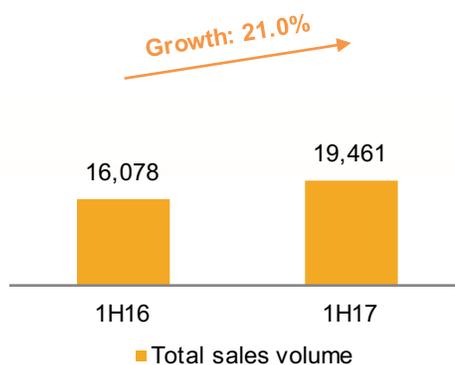
Number of self-operated retail stores

(Number of stores)



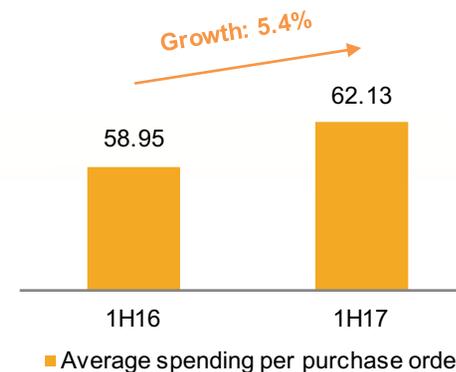
Total sales volume

(Tons)



Average spending per purchase order

(RMB)



Notes:

- Adjusted net profit is calculated by deducting listing expenses and the expense of upgrading the Group's existing Phase I Wuhan facility.
- Adjusted net profit is an unaudited non-GAAP item. To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Group has presented this non-GAAP item as an additional measure to evaluate the financial performance of the Group by considering the impact of certain item that the Group believes is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry the Group operates and by eliminating the impact of certain unusual and non-recurring item that the Group does not consider indicative of the performance of the Group's business.



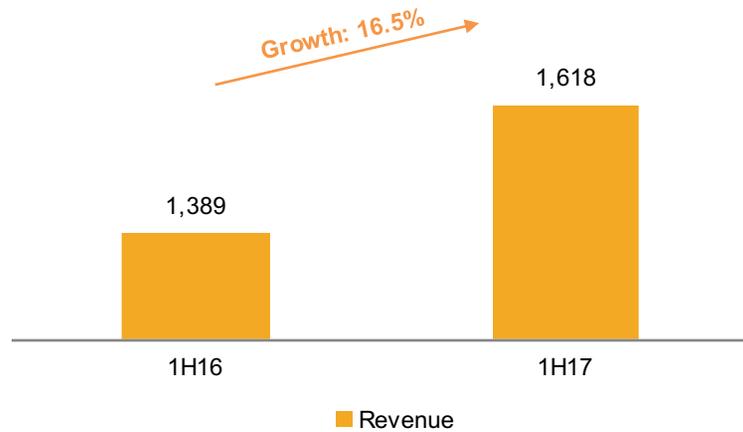
Section 2

Financial Highlights

Financial Data Analysis

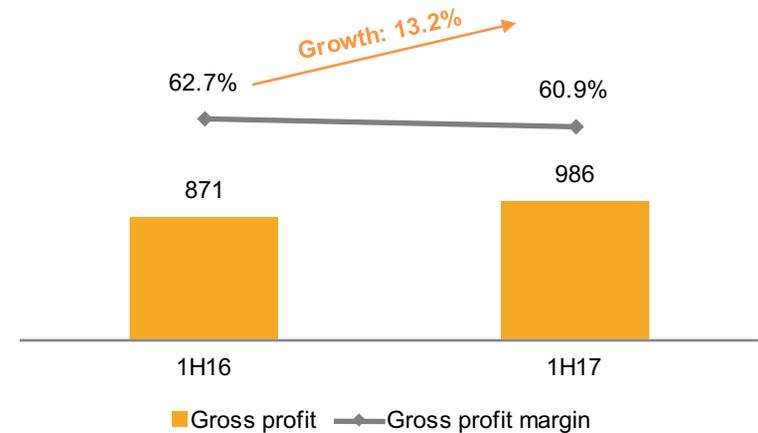
Revenue

(RMB MM)



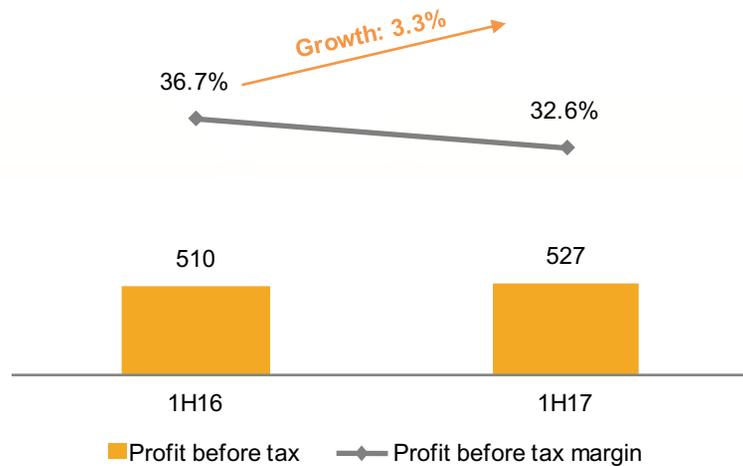
Gross profit

(RMB MM)



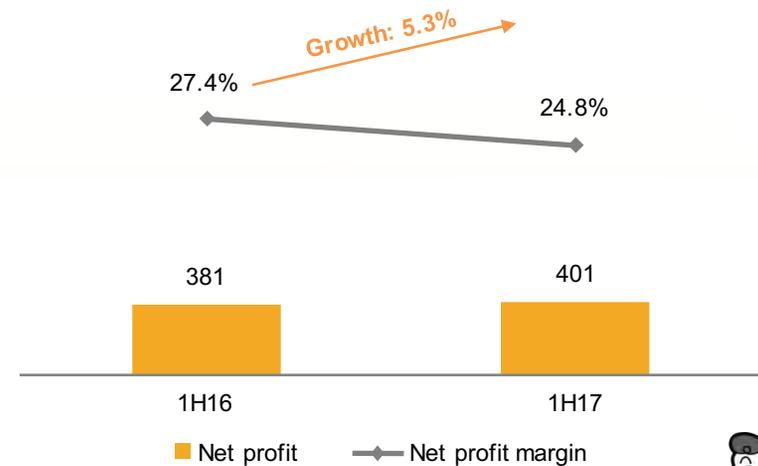
Profit before tax

(RMB MM)



Net profit

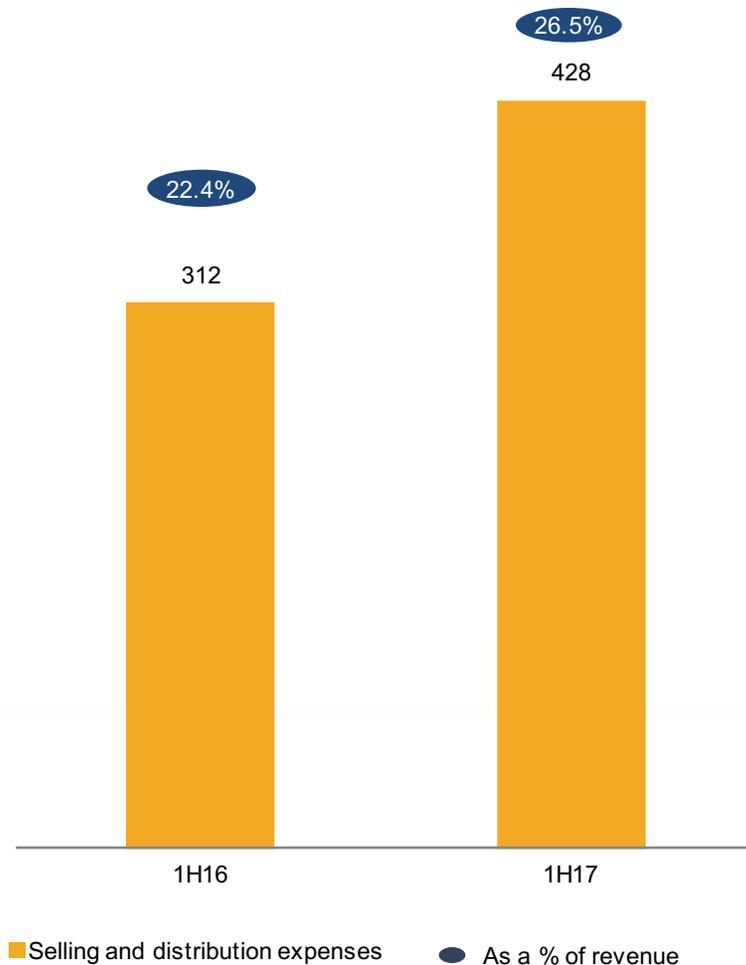
(RMB MM)



Selling and Distribution Expenses

Selling and distribution expenses

(RMB MM)



- ✓ In 1H17, the Company continued to enhance its online marketing campaigns, resulting in the growing online advertising and promotion expense
- ✓ As a result of the expansion of the retail store network, there was an increase in lease expenses and salary and welfare of the selling and marketing staff
- ✓ The above are in line with the Company's efforts to increase its brand promotion and marketing, and its emphasis on an online presence, which will provide a strong impetus for the growth in 2H17



Section 3

Business Review

Promising Industry Outlook

Positive momentum in China consumer market



Stable increase in disposable income per capita driven by economic development ⁽¹⁾



Consumer confidence reaches a highest level in recent years, with evolving lifestyle and consumption habits



Young consumers with strong purchasing power are becoming the main stream as population grows

Online channels maintain rapid growth

Online retail value of consumer goods grows rapidly ⁽¹⁾

Online shopping on mobile devices has become an emerging trend

Young consumers particularly prefer online shopping

Increasing penetration of E-payment leads to transformation



Note:

1. Source: National Bureau of Statistics of China, Frost & Sullivan Report, Morgan Stanley Research

Braised food industry is sizable, fast-growing and showing huge future potential



Market size of the casual braised food industry ⁽¹⁾

- ✓ The casual braised food industry is sizable, with the market size expected to reach RMB 77Bn in 2017, up by RMB 13Bn from 2016
- ✓ The braised food industry has been in dire need of transition and consumption upgrades, and customer demand remains underserved
- ✓ Casual braised poultry product is the industry highlight and also the largest subsegment in the market, with a CAGR expected to be >20%
- ✓ Channel penetration rate is still low, and current openings of transport hub stores are far from the industry ceiling

New opportunities for the offline channels

>80%

- Offline channels still account for >80% of retail sales of consumer goods in China ⁽¹⁾



- Offline shopping experience especially matters for food consumption



- Delivery service and further integration of online and offline will continue to drive channel transformation

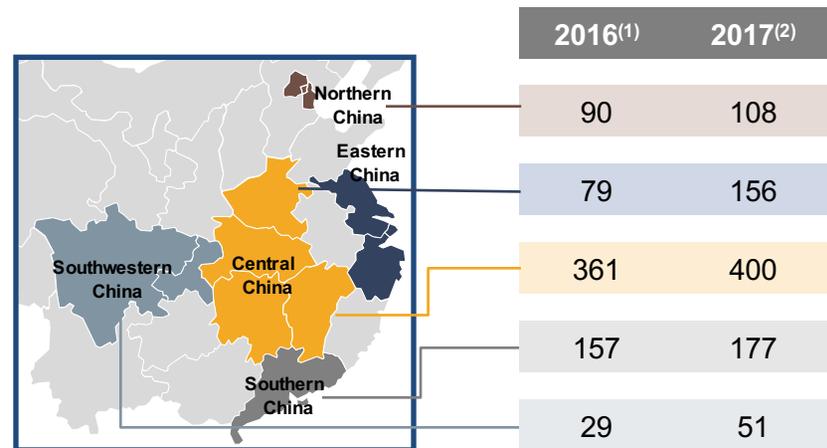
Prudent Expansion and Penetration of Self-Operated Retail Stores

Revenue

(RMB MM)

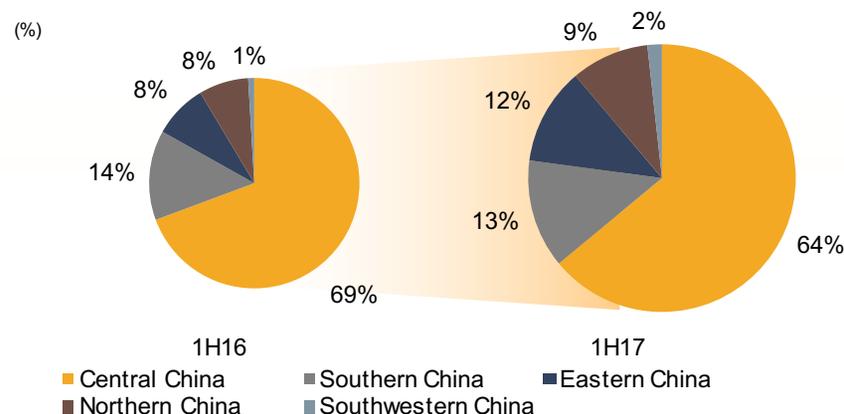
- ✓ Currently, Zhou Hei Ya has **892** self-operated retail stores covering **13** provinces and **47** cities
- ✓ Opened **144** stores and closed **30** stores in 1H17
- ✓ Highly standardized and replicable business model enables a stable growth in the number of retail stores
- ✓ With a more balanced geographical presence and the penetration of regional sales network, the revenue contribution from central China and southwestern China increased substantially, which will continue to contribute stably in future

Geographical distribution of retail stores in 1H17



Significant potential for business development in existing and new markets

- Revenue breakdown by regions⁽³⁾



- Significant untapped potential in tier-1 & 2 cities where Zhou Hei Ya has presence vs. Wuhan⁽⁴⁾

(Number of stores / million people)



Notes:

1. As of December 31, 2016

2. As of June 30, 2017

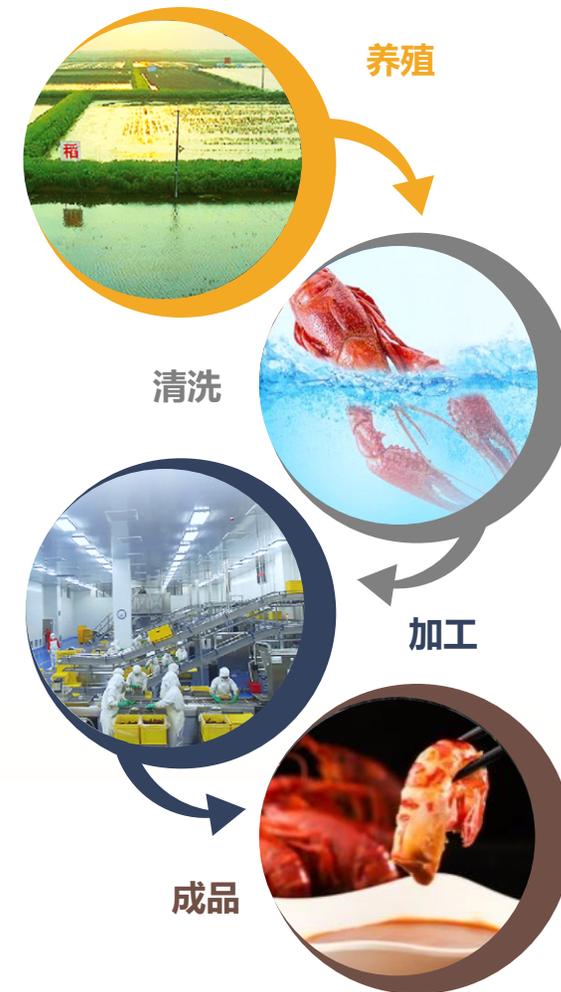
3. Only includes revenue from self-operated retail stores

4. Tier-1 cities here refer to Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin. Tier-2 cities include Wuhan, Chongqing, Dongguan, Changsha, Nanjing, Suzhou, Nanchang, Hangzhou, Ningbo, Wuxi, Zhengzhou and Chengdu. Wuhan is excluded in calculating both number of second-tier cities covered and number of stores per million people. Data as of June 30, 2017

Strong Capability of New Product Development

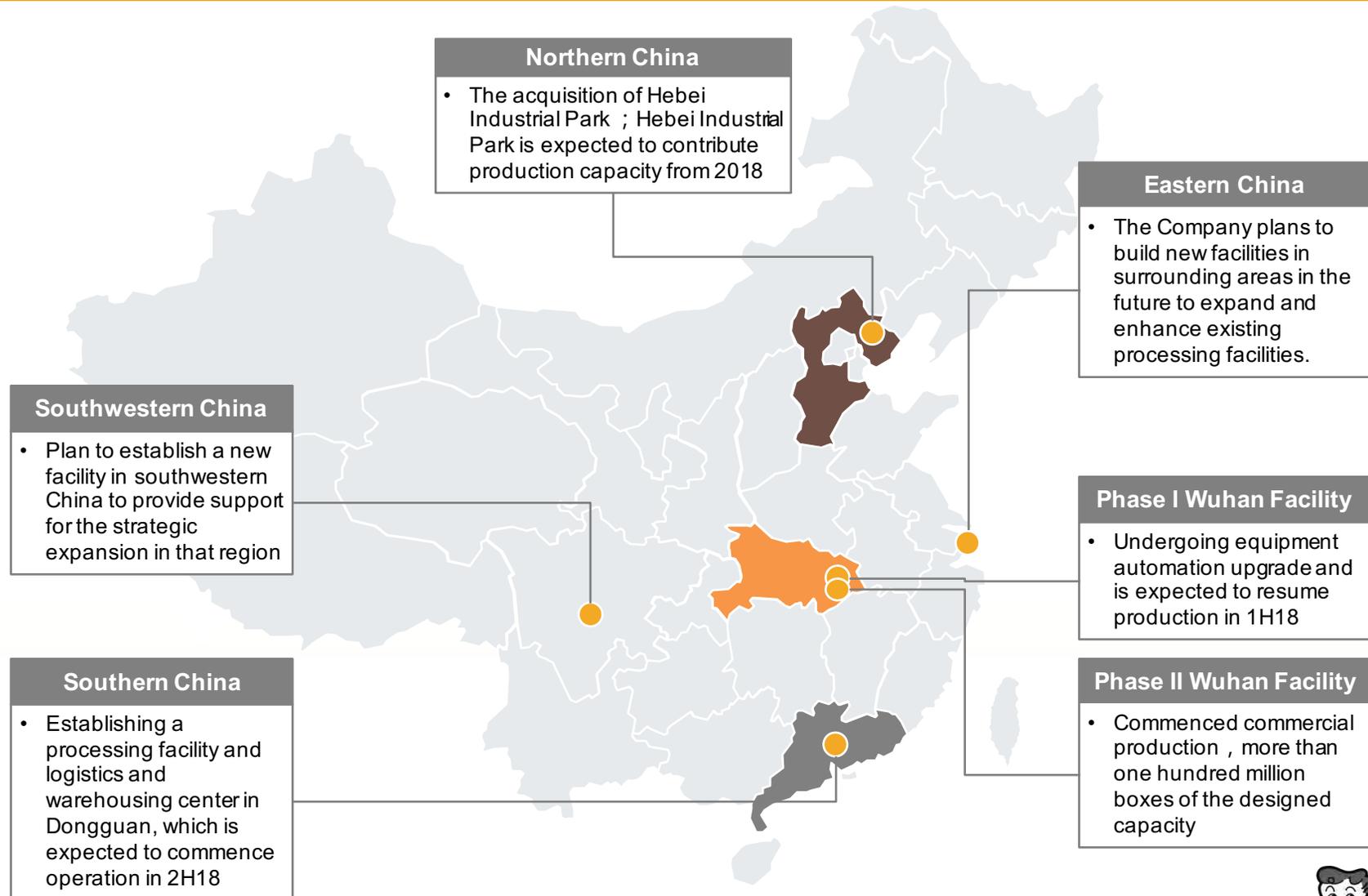
“Zhou Hei Ya Crayfish” is expected to become the next growth engine of the Company

- 1** Launch crayfish products to meet consumers' need, attract the up-and-coming consumer group and tap the enormous market potential
- 2** Assure the quality of all procedures including the procurement, production, logistics, store management
- 3** Optimize product portfolio for risk diversification, and is expected to make a substantial contribution to the company's revenue in the future



Continuous Capacity Expansion

Expand geographical coverage, enhance brand awareness, prolong shelf life and expand capacity to drive sales growth



Strengthening of Brand Awareness and Marketing

- Create an energetic brand image through sponsorship in a marathon, title sponsorship in the cherry blossom festival and advertisement in transportation hubs



Increase advertisement coverage

- Create diversified consumption scenarios



Create consumption under different scenarios



Focus on member benefits



- Integration of online and offline membership, membership registration by scanning QR codes, gifts for new members and Members' Day

Collaborations with social media



- Livestream by internet celebrities, interactions on WeChat and Weibo etc. to enhance brand popularity and customer loyalty

Continuously Increase Investment in E-Commerce to Rapidly Improve Its Revenue Contribution

1

天猫 Tmall.com
 淘宝网 Taobao.com
 京东商城 JD.com

Strengthen existing online platforms and further develop new platforms

2

饿了么
 美团 meituan.com

Expand delivery service and launch the "Zhou Hei Ya Branded Day"

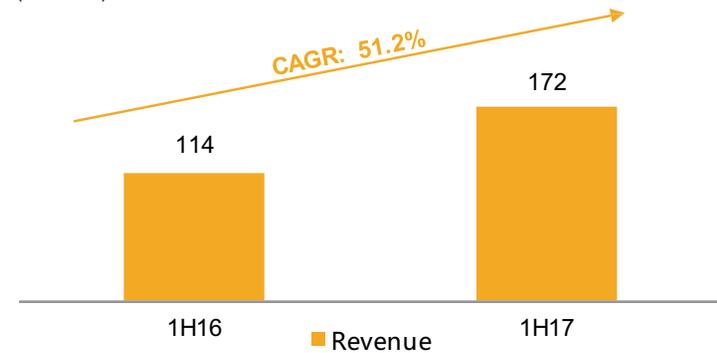
3

Leverage big data analysis to combine information gathered from both online and offline channels to achieve precise marketing targeted on specific customer groups

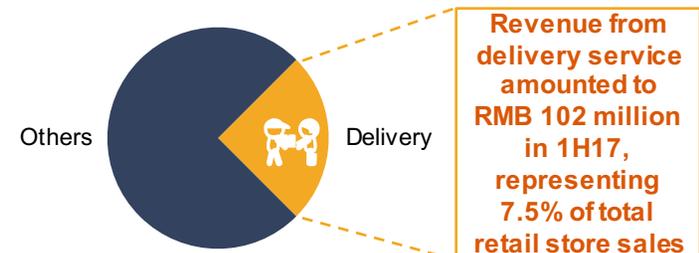
Capture enlarged market driven by rapidly growing e-commerce in China

Rapid growth in revenue and contribution from e-commerce

(RMB MM)



Delivery service





Section 4

Opportunities and
Outlook

Future Development Strategies



1

Further penetrate existing markets and strategically expand into new regions



2

Further strengthen our brand image and promote our unique culture and lifestyle



3

Attract young customers and develop e-commerce business



4

Enhance talent cultivation and organizational flow



5

Improve the development and utilization of big data





Appendix

Investment Highlights

Company History

2002-2007



Startup Stage

- The founder opened “Fuyu Guai Wei Ya Store” in Wuhan
- Applied for trademark registration
- Established Wuhan ZHY Holdco
- Established the first processing facility in Wuhan

Unpackaged products



2002

2008-2012



Business Model Upgrade

- Upgraded retail model to branded chain stores
- Expansion outside of Hubei
- Launched vacuum packaged and MAP products
- Established e-commerce retail channels
- Tiantu and IDG invested

-  Recognized as a “Well-known Trademark in China”

Vacuum packaged products



2009

2013-2015



Rapid Development

- Recognized as “National Key Leading Enterprise in Agriculture Industrialization”
- MAP products completely replaced unpackaged products
- Launched fixed-weighted MAP products and individually-packed vacuum products

MAP products



2012

2016



Stable Growth

- Recognized as “Gift from China” in the “One Belt One Road World Tour” organized by Xinhua News Agency
- Rapid growth of e-commerce, which contributed 9%+ of revenue in 2016

Fixed-weighted MAP and individually-packed vacuum products



2015

2017



Innovation and Breakthrough

- Enriches product mix by launching new products such as MAP crayfish, braised beef, etc.
- Continuous expansion of production capacity and coverage, strengthens brand communication and prolongs shelf life to drive sales growth

Launched new products such as crayfish and braised beef, etc.



2017

1 Leading Brand and Retailer of Casual Braised Food in China

Leading brand and retailer in China's casual braised food industry

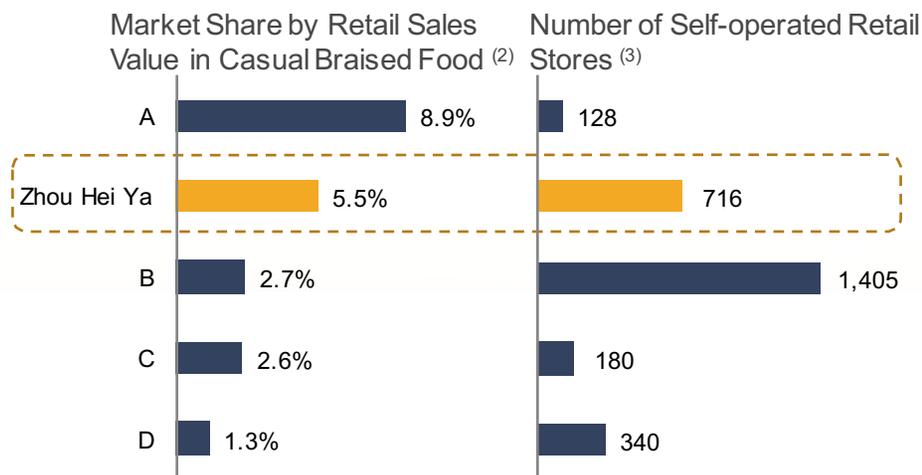
Zhou Hei Ya led the transition of China's casual braised food industry:

- 1 Upgraded the retail model to **branded chain stores**
- 2 First braised food company to achieve a complete shift from selling unpackaged products to **MAP products**
- 3 Deployed advanced **processing and packaging technologies** to achieve mass production
- 4 Pioneered the **transformation** of braised food from table food to **casual food**
- 5 Promoted brand philosophy of **"More Entertainment, More Fun"**



Leadership in the casual braised food industry⁽¹⁾

- #2 The second largest casual braised food company in China by total revenue⁽²⁾
- #2 The second largest casual braised food brand in China by retail sales value⁽²⁾
- #2 Operates the second largest self-operated retail store network in casual braised food industry in China⁽³⁾
- #1 Ranked first in terms of brand awareness and customer satisfaction in 2015
- #1 The largest casual braised food company in terms of revenue generated from online channels⁽²⁾

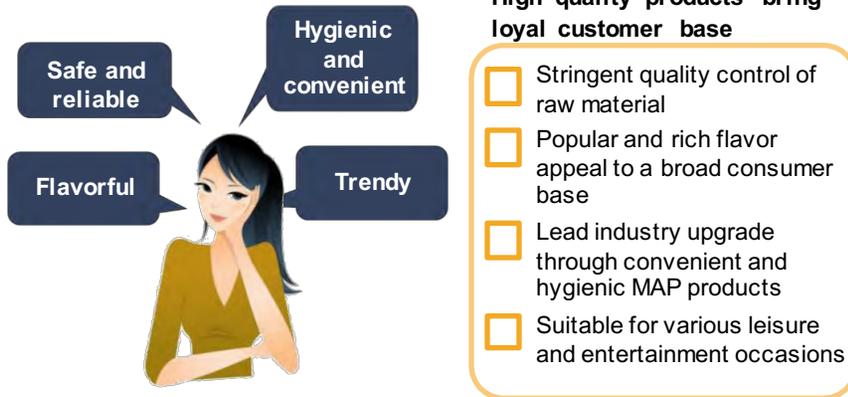


Notes

1. According to Frost & Sullivan industry report and interviews with over 2,000 customers across 20 cities in China
2. In 12 months ended June 30, 2016
3. As of June 30, 2016

2 Unique Competitive Advantages

Popular products that satisfy customer needs



“More Entertainment, More Fun” branding tailored for young customers



Fast growing e-commerce channels and self-operated stores channel



Traditional workshops



VS

Zhou Hei Ya production lines



3 Experienced and Visionary Management Team Embracing Customer-Focused Corporate Culture

TBU

Executive Directors



ZHOU Fuyu

- Chairman of the Board, Founder
- >20 years of experience in the casual braised food industry
- Responsible for formulating the overall strategy of the Group



HAO Lixiao

- Executive Director and Chief Executive Officer
- Responsible for overseeing the overall strategy, operation and investment



ZHU Yulong

- Executive Director
- Responsible for advising on and overseeing the implementation of the strategic development plans



HU Jiaqing

- Executive Director
- Responsible for production management, quality control and research and development



WEN Yong

- Executive Director
- Responsible for the supply chain management

Long-tenured and Experienced Team

- Management team has, on average, more than **10 years** of industry experience
- Many of which have been working at ZHY since its inception

Pioneered Industry-wide Transformation

- Upgrades business model and promotes transformation in the casual braised food industry in China
- Comprehensive management system to support steady and robust growth of the Company

A Customer-focused Culture

- Embraced a customer-focused corporate value
- Focus on customer experience; reinforces customer loyalty by improving products, sales channels and marketing

5 Efficient and Effective Supply Chain Management Supported by Strong and Stringent Quality Assurance Systems

A quality assurance system with comprehensive coverage of supply chain

Procurement



- Procure poultry directly from leading processors in China
- Procure spices from regions of origin
- Regular spot checks and annual inspections of suppliers facilities

Production



- Stringent production safety and quality standards
- Separates facilities into different clean zones
- Sample testing on semi-finished products
- Regular sanitization of facilities

Inventory Management



- Standardized inventory management procedure
- ERP system tracks inventory level on a real-time basis to ensure freshness and quality

Logistics



- Cold chain logistics with advanced vehicles to maintain product quality
- Vehicles are thoroughly sterilized and subject to inspection upon each round of delivery

Store Management



- Stringent requirements on store hygiene and service
- Ability to identify and locate expired/defective products
- Regular checks by a quality control team

Efficient and effective supply chain management system

- Supply chain management system applies centralized management of all main operating data including procurement, production, logistics, inventories and point of sales
- ERP and POS systems can track store inventory on a real time basis and adjust products supply intelligently
- Zhou Hei Ya is one of a few casual food companies in China that is capable of product tracing back to major raw materials