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Natural Food International Holding Limited
五谷磨房食品國際控股有限公司

(Registered by way of continuation in the Cayman Islands with limited liability)

(Stock Code: 1837)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Natural Food International Holding Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the consolidated results of the Group for the six months ended 30 June 2021 (the “**Period**”), together with the comparative figures for the corresponding period in 2020 as below.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Period-on- period change Increase
	2021 RMB'000	2020 RMB'000	
Revenue	753,899	610,330	24%
Gross profit	534,881	413,360	29%
Profit/(loss) before tax	47,962	(83,227)	N/A
Profit/(loss) for the period attributable to owners of the Company	38,032	(52,341)	N/A
Earnings/(loss) per share (expressed in RMB)			
Basic	0.02	(0.02)	N/A
Diluted	0.02	(0.02)	N/A

At the Board meeting held on 26 August 2021, the Board resolved to declare the payment of an interim dividend of RMB0.016 per ordinary share representing a total distribution of approximately RMB35,016,224 to be paid on 30 September 2021 (Thursday) to shareholders of the Company whose names appear on the Company's register of members on 17 September 2021 (Friday), which represented approximately 92.07% of the Group's net profit for the six months ended 30 June 2021.

Dividends payable to holders of shares will be paid in Hong Kong dollar. The dividends payable in Hong Kong dollar will be calculated based on the middle exchange rate of Hong Kong dollar to Renminbi published by the People's Bank of China on the dividends declaration date. During 26 August 2021, the middle exchange rate of Renminbi to Hong Kong dollar was HK\$1.00 = RMB0.83161. Accordingly, the amount of the interim dividends for each share of the Company for the six months ended 30 June 2021 is HK\$0.02.

Book Closure Periods

For determining the entitlement of the proposed interim dividend, the register of members of the Company will be closed from Wednesday, 15 September 2021 to Friday, 17 September 2021, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 14 September 2021.

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

For the six months ended 30 June 2021

	Notes	For the six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	4	753,899	610,330
Cost of sales		<u>(219,018)</u>	<u>(196,970)</u>
Gross profit		534,881	413,360
Other income and gains	4	6,536	3,815
Selling and distribution expenses		(455,103)	(457,409)
Administrative expenses		(38,373)	(39,351)
Reversal of impairment of/(impairment of) financial assets		3,752	(1,267)
Other expenses		(3,330)	(1,932)
Finance costs		<u>(401)</u>	<u>(443)</u>
PROFIT/(LOSS) BEFORE TAX	5	47,962	(83,227)
Income tax (expense)/credit	6	<u>(9,930)</u>	<u>30,886</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>38,032</u>	<u>(52,341)</u>
Attributable to:			
Owners of the parent		38,032	(52,341)
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>38,032</u>	<u>(52,341)</u>

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

For the six months ended 30 June 2021

		For the six months ended	
		30 June	
		2021	2020
Note		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
	Exchange differences on translation of foreign operations	5,321	(9,718)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
	Translation from functional currency to presentation currency	<u>(7,195)</u>	<u>13,368</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>36,158</u>	<u>(48,691)</u>
Attributable to:			
	Owners of the parent	36,158	(48,691)
	Non-controlling interests	<u>—</u>	<u>—</u>
		<u>36,158</u>	<u>(48,691)</u>
Earnings/(loss) per share (expressed in RMB)			
	Basic	0.02	(0.02)
	Diluted	<u>0.02</u>	<u>(0.02)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		311,604	306,099
Right-of-use assets		51,135	54,469
Intangible assets		467	598
Deferred tax assets		63,074	65,642
		<u>426,280</u>	<u>426,808</u>
Total non-current assets			
CURRENT ASSETS			
Inventories		59,160	92,022
Trade and bills receivables	9	135,667	161,934
Financial assets at fair value through profit or loss		–	20,750
Prepayments, other receivables and other assets		43,700	41,422
Amounts due from related parties		10,957	10,448
Cash and cash equivalents		659,016	564,175
Restricted bank deposits		554	557
		<u>909,054</u>	<u>891,308</u>
Total current assets			
CURRENT LIABILITIES			
Trade payables	10	46,314	52,618
Contract liabilities		10,235	12,330
Other payables and accruals		111,133	124,212
Lease liabilities		5,428	5,389
Tax payable		31,853	31,251
		<u>204,963</u>	<u>225,800</u>
Total current liabilities			
NET CURRENT ASSETS		<u>704,091</u>	<u>665,508</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,130,371</u>	<u>1,092,316</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2021

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred income	500	500
Deferred tax liabilities	5,424	3,324
Lease liabilities	<u>10,787</u>	<u>13,004</u>
 Total non-current liabilities	 <u>16,711</u>	 <u>16,828</u>
 Net assets	 <u><u>1,113,660</u></u>	 <u><u>1,075,488</u></u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	147	147
Other reserves	<u>1,113,513</u>	<u>1,075,341</u>
 Non-controlling interests	 <u>—</u>	 <u>—</u>
 Total equity	 <u><u>1,113,660</u></u>	 <u><u>1,075,488</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

1. CORPORATE INFORMATION

The Company was formerly known as Roomy Development Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands (the “**BVI**”) on 30 November 2009. It was registered by way of continuation in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands and changed its name to “Natural Food International Holding Limited” on 11 May 2018. The address of the registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 12 December 2018 (the “**Listing**”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in processing and selling natural health food in the People’s Republic of China (the “**PRC**”).

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

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

The interim condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKAS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

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

4. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, and trade discounts (net of value-added tax) for the six months ended 30 June 2021 and 2020.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>753,899</u>	<u>610,330</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>753,899</u>	<u>610,330</u>

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<u>Other income and gains</u>		
Government grants*	1,429	900
Bank interest income	259	774
Fair value gains from financial assets at fair value through profit or loss	3,501	495
Commission income from provision of a sales platform	911	929
Others	436	717
	6,536	3,815

* Various government grants have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants.

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Cost of inventories sold	219,018	196,970
Depreciation of property, plant and equipment	12,953	14,940
Depreciation of right-of-use assets	3,666	3,671
Lease payments not included in the measurement of lease liabilities	1,802	983
Research and development costs*	1,836	1,945
Amortisation of intangible assets	131	285
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	73,406	76,784
Equity-settled share option expenses	1,404	7,521
Pension scheme contributions	8,047	4,564
Auditor's remuneration	396	377
(Reversal of impairment of)/impairment of trade and bills receivables**	(3,752)	1,267
Loss on disposal of items of property, plant and equipment	3,056	–
Fair value gains from financial assets measured at fair value through profit or loss	(3,501)	(495)
Finance costs	401	443
Bank interest income	(259)	(774)

* Research and development costs is included in "Administrative expenses" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

** (Reversal of impairment of)/impairment of trade and bills receivables is included in "Reversal of impairment of/(impairment of) financial assets" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in the British Virgin Islands and the Cayman Islands during the period (six months ended 30 June 2020: Nil).

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period (six months ended 30 June 2020: Nil).

Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the “**PRC Tax Law**”) effective on 1 January 2008, the PRC corporate income tax rate of the Group’s subsidiaries operating in the PRC was 25% (six months ended 30 June 2020: 25%) on their taxable profits for the six months ended 30 June 2021 and 2020.

For the six months ended 30 June 2021 and 2020, income arising from the preliminary agricultural processed products in Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd. was not subject to income tax, pursuant to the relevant PRC tax laws.

The major components of income tax expenses in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2021	2020
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	5,262	2,493
Deferred tax	4,668	(33,379)
	<hr/>	<hr/>
Total tax charge/(credit) for the period	9,930	(30,886)
	<hr/> <hr/>	<hr/> <hr/>

7. INTERIM DIVIDEND

On 26 August 2021, the Board declared an interim dividend of RMB0.016 (six months ended 30 June 2020: Nil) per ordinary share, amounting to a total of approximately RMB35,016,224 (six months ended 30 June 2020: nil).

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings/(loss) per share for the period is based on the profit/(loss) attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of the diluted earnings/(loss) per share for the period is based on the profit/(loss) attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of the ordinary shares in issue during the period, as used in the basic earnings/(loss) 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/(loss) per share are based on:

<u>Earnings/(loss)</u>	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	<u>38,032</u>	<u>(52,341)</u>
<u>Shares</u>	For the six months ended 30 June	
	2021	2020
Weighted average number of ordinary shares in issue used in the basic earnings/(loss) per share calculation	<u>2,188,514,000</u>	<u>2,188,514,000</u>
Effect of dilution – weighted average number of ordinary shares: Share options	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares in issue used in the diluted earnings/(loss) per share calculation	<u>2,188,514,000</u>	<u>2,188,514,000</u>

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the period ended 30 June 2021 and 2020 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	118,800	165,840
Bills receivable	21,385	4,671
Impairment	(4,518)	(8,577)
	<u>135,667</u>	<u>161,934</u>

The Group's trading terms with its sales channels are mainly on credit. The credit period is generally one month, extending up to three months for major sales channels. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified sales channels, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 1 month	132,633	149,620
1 to 2 months	1,739	2,053
2 to 3 months	676	800
Over 3 months	619	9,461
	<u>135,667</u>	<u>161,934</u>

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	30,445	40,285
1 to 2 months	12,371	8,101
2 to 3 months	985	2,010
Over 3 months	<u>2,513</u>	<u>2,222</u>
	<u>46,314</u>	<u>52,618</u>

The trade payables are non-interest-bearing and are normally settled on 15 to 60 days' terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2021, against the backdrop of the global resurgence of the COVID-19 pandemic, although there were repeated outbreaks in some regions in China, the overall situation was stable. With the increase in the COVID-19 vaccination rate, China's pandemic prevention and control results were consolidated, and the national economy maintained a stable recovery. China's national economy has started well this year, with GDP increasing by 12.7% year on year in the first half of 2021, and the consumer market recovered well in the first half of the year, with demand expanding and increasing market vitality. The food and beverage sector has also continued to be active, especially in that with the further increase in national health awareness, "healthy" industry has become one of the most popular trends in the entire food and beverage industry. In view of this, we continued to upgrade our products and channels in order to provide healthy and convenient cereal nutrition food to a wider range of consumers. Benefiting from this, the Group's revenue grew significantly and profitability continued to recover in the first half of 2021. For the six months ended 30 June 2021, the Group recorded a revenue of RMB753.9 million (representing an increase of 23.5% as compared to the corresponding period of last year) and a profit attributable to owners of the parent of RMB38.0 million (corresponding period of 2020: loss of RMB52.3 million).

During the Period, the Group has adhered to long-term development, carried out relevant work flexibly according to the established development strategy, focused on accelerating the development of online business, vigorously cultivated new categories and new products which are natural, healthy and convenient, actively explored new sales channels and opportunities, and continued to deepen the refined operation of customers.

Online Channels

The Group's online channels mainly include e-commerce platforms and self-operated WeChat member stores. In the first half of 2021, revenue from online channels amounted to RMB275.2 million, representing an increase of 38.2% as compared to the corresponding period of last year.

The expansion and cultivation of online channels represented by e-commerce platforms has always been one of the most important sales strategies of the Group. As the first brand in the natural grain powder category on the Tmall platform, we have maintained a long-term good and healthy relationship with the platform. At the same time, we used the brand as the fulcrum to leverage abundant platform resources to promote our products more efficiently. In the first half of this year, we continued to maintain our position as "Tmall Natural Grain Powder TOP1 Brand" for six consecutive years and achieved excellent performance in key marketing festivals such as "3.8 Goddess Festival" and "618". Our best-selling e-commerce product "Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)" recorded a year on year increase of 100%, maintaining its position as the No. 1 natural grain powder product in the entire network.

With remarkable results achieved on the traditional e-commerce platform, we also acutely captured the opportunities arising from the rapid development of emerging social e-commerce platforms, including Douyin Store. Through various forms of video/graphics with rich contents, as well as live-stream sales, we utilised the extensive appeal of many well-known artists, key opinion leaders (KOLs) and key opinion consumers (KOCs) to trigger extensive consumer discussion on the "Wugu Mofang (五谷磨房)" brand and products, so as to continuously consolidate and deepen the health attributes of our "Grain Nutrition Expert Brand" and enhance the brand's favourability and recognition. As a result, Wugu Mofang Douyin Store contributed sales revenue of approximately RMB30 million in the first half of the year.

Leveraging the extensive use and penetration of WeChat platform in consumers' daily life and consumption, we are skilled in using this platform to achieve efficient consumer management. Benefiting from the Company's mature experience in consumer operation and management and extensive consumer information database, we strive to bring more brand added value to consumers by using various platform tools to provide consumers with diverse and theme-rich brands and healthy life-related information.

Offline Channels

The Group's current offline channels mainly include concessionary counters in supermarkets. In the first half of 2021, revenue from offline channels amounted to RMB478.7 million, representing an increase of 16.4% as compared to the corresponding period of last year.

Since its establishment, the Group has been selling through on-site milling of cereal nutrition powder by opening counters in a chain of large supermarkets. Over the years, offline counters have become one of the important sales channels of the Group while helping the brand to form strong recognition among consumers, thereby becoming an important window of face-to-face communication between the Group and consumers.

After experiencing the impact of the sudden outbreak of the COVID-19 pandemic in early 2020, we continued to adjust the operating strategy of the counter business in a timely manner and achieved significant results in phases. As of 30 June 2021, the Group had 2,706 concessionary counters nationwide and recorded sales revenue of RMB478.7 million, representing a year on year increase of 16.4%.

However, since the beginning of this year, despite the steady recovery of China's economy, we have also observed that the COVID-19 pandemic has left far-reaching impact on the offline business environment, especially the significant trend of declining consumer traffic in hypermarkets. In view of the recent resurgence of the COVID-19 pandemic in certain regions in Mainland China, we believe that the impact of the pandemic on the offline business environment is uncertain, but the Group will continue to operate offline counters from a long-term perspective.

In the first half of 2021, we newly opened 70 concessionary counters. However, in view of the continuous impact of the COVID-19 pandemic, we proactively closed 535 concessionary counters to control costs and improve operational efficiency.

The table below sets forth the total number of the concessionary counters, newly opened counters and closed counters for the Period:

	Six months ended 30 June 2021	Twelve months ended 31 December 2020
At the beginning of the Period	3,171	3,399
Add: newly opened counters	70	341
Less: Closed counters	<u>(535)</u>	<u>(569)</u>
Total concessionary counters	<u>2,706</u>	<u>3,171</u>

In addition, during the Period, the Group also actively explored opportunities in other channel businesses, including the distribution model. At the initial stage, the Group will focus on the streamlining of channel products and the building of the team which have been preliminarily completed currently. The Group will steadily promote the development of these channel businesses in accordance with the established development strategies, with a view to achieving broader distribution channels to bring healthy cereal nutrition food to more consumers.

Products

In the first half of 2021, the Group continued to upgrade and innovate core categories of natural grain powder and other long-tail products based on the product concepts of “homology of medicine and food” and “natural, healthy and without additives”, and launched more products in line with the market trend.

In the first half of this year, we took the lead in launching the black nutrition expert brand “Black Nutrition (黑之養)” on the e-commerce channels, which quickly attracted customers with black food’s wide recognition, consensus and popularity in the traditional Chinese food culture, coupled with distinctive packaging and publicity. In the future, we will continue to focus on building the “Black Nutrition (黑之養)” brand, and introduce the brand to other channels in addition to e-commerce channels, so as to provide consumers with black grain nutrition food including “Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)”, “Black Sesame Pills (黑芝麻丸)” and “Black Soy Pulp Powder (黑豆漿粉)”.

Brand Building

In the first half of 2021, we strengthened our brand building around the brand images of “Natural and Healthy” and “Young and Fashionable”.

The brand communication of “Wugu Mofang (五谷磨房)” continued to penetrate into new generation groups, and cultivate new users with the goal of making the classic brand “Wugu Mofang (五谷磨房)” fashionable. In May 2021, we engaged Ms. Guan Xiaotong, a well-known actress, as the brand ambassador of “Wugu Mofang (五谷磨房)” to arouse a new brand image and convey the brand’s affinity, reliability and vitality.

In addition, we actively delivered the health, convenience and fashion attributes of our products to consumers through social media platforms such as Douyin (抖音) and Xiaohongshu (小紅書). Through content marketing such as theme promotion, celebrity, KOL and KOC interaction, the popularity and discussion of related products have significantly increased on the Internet.

Outlook

Looking ahead to 2021, despite the ongoing recovery of macroeconomic indicators, the effects of the COVID-19 pandemic will remain. In particular, the offline department store operation is disrupted and consumer traffic has not yet returned to the level before the outbreak of the COVID-19 pandemic. In addition, the COVID-19 pandemic has fuelled the reformation of the entire consumption industry, including the food and beverage sector as well as the retail sector. In terms of channels, retailers have raced to increase their investments in online businesses and O2O businesses, so as to cope with the changing consumption habits of consumers. In terms of products, there are increasingly more sub-categories being penetrated, thus a large number of potential products will be launched. Against such background, the Group has contemplated its own current advantages, the existing challenges and the breakthroughs it should seek for, and formulated its medium- and long-term development strategy of “consolidate main business, expand channels and diversity products” to resolutely continue to consolidate the cereal nutrition powder as our core advantageous category and target offline concessionary counters as our fundamental development focus while acutely seizing and actively expanding new channels and opportunities of new categories, so as to provide continuous momentum for the long-term development of the Company.

Financial Review

Revenue

The Group sells its products through an extensive network of offline concessionary counters as well as online channels, including major e-commerce platforms and self-operated WeChat member stores. The following table sets out a breakdown of the Group's revenue by sales channel, each expressed in the absolute amount and as a percentage to its total revenue, for the periods indicate:

	For the six months ended 30 June			
	2021		2020	
	RMB'000	%	RMB'000	%
Offline channels	478,728	63.5	411,275	67.4
Online channels	275,171	36.5	199,055	32.6
WeChat member stores	35,991	4.8	32,197	5.3
E-commerce platforms	239,180	31.7	166,858	27.3
Total	753,899	100.0	610,330	100.0

For the six months ended 30 June 2021, absolute amounts of revenue generated from sales through its offline and online channels increased as compared to the corresponding period in 2020 and total revenue increased from RMB610,330 thousand for the six months ended 30 June 2020 to RMB753,899 thousand for the six months ended 30 June 2021. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased to 63.5% for the Period from 67.4% for the corresponding period in 2020, while revenue generated from sales through online channels increased from 32.6% for the six months ended 30 June 2020 to 36.5% for the Period. The increase in revenue was primarily due to (i) the recovery of growth in revenue generated from offline channels was due to the effective control over the COVID-19 pandemic by the Chinese government; (ii) the successful promotion of our star product “Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)”, the establishment and operation of other social e-commerce platforms including Douyin Stores in addition to continuous sound operation of existing channels by our e-commerce team, allowing the Group to reach a wider customer base and successfully spurring a significant increase in revenue from online channels.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 11.2% from RMB197 million for the six months ended 30 June 2020 to RMB219 million for the Period, which was mainly attributable to (i) the increase in the cost of raw materials and packaging caused by the increase in sales; and (ii) the decrease in the changes in inventories of finished goods and work-in-progress.

Gross profit of the Group increased from approximately RMB413.4 million for the six months ended 30 June 2020 to approximately RMB534.9 million for the Period. The gross profit margin increased from 67.7% for the six months ended 30 June 2020 to 71% for the Period, primarily due to (i) the decrease in raw material prices; and (ii) the tightening of our discount policy.

Other Income and Gains

Other income and gains of the Group increased by RMB2.7 million from approximately RMB3.8 million for the six months ended 30 June 2020 to approximately RMB6.5 million for the Period, which was mainly attributable to the increase in the fair value gains from financial assets at fair value through profit or loss.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of advertising expenses, commission expenses, labour service expenses of salesmen, salary and employee benefit expenses, sales promotion expenses, transportation expenses and others. The selling and distribution expenses remained stable and decreased from approximately RMB457.4 million for the six months ended 30 June 2020 to approximately RMB455.1 million for the Period, which was mainly attributable to the combined effects of the following factors: on the one hand, (i) labour service expenses of salesmen of offline channels decreased due to the decrease in the number of concessionary counters and salesman staff; (ii) less promotion activities carried out by supermarket during the Period, it resulted in the decrease in sales promotion expenses during the Period; (iii) salary and employee benefits decreased due to the decrease in the number of senior management staff as a result of optimization of employee structure; (iv) transportation expenses decreased due to the change of carriers as a result of our optimization of logistics, and the absence of increase in storage fees in Hubei province due to the outbreak of the COVID-19 pandemic; (v) the depreciation expenses decreased during the Period, it was due to the Group adjust the number of concessionary counters, it resulted in the decrease of the total number of concessionary counters and the carrying

amount of the fixed asset attributable to concessionary counters; (vi) the share-based payment expenses decreased, it was due to some of the employee stock options have reached the vesting period during the six months ended 30 June 2020; on the other hand, (i) commission expenses increased due to the increase in sales revenue; (ii) advertising expenses increased due to the increase in e-commerce platform promotion activities; and (iii) distribution costs related to supermarkets increased due to the increase in offline conference fees.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, office expenses, intermediary service fees, depreciation and amortization, research and development expenses, losses arising from the suspension of production, and share based payment expenses and others. The administrative expenses remained basically stable and decreased from approximately RMB39.4 million for the six months ended 30 June 2020 to approximately RMB38.4 million for the Period. The decrease was mainly due to the combined effects of the following factors: on the one hand, (i) share-based payment expenses decreased because employee stock options have reached the vesting period during the period ended 30 June 2020; (ii) intermediary service fees, staff and worker training expenses decreased due to our enhanced cost control measures; (iii) losses on work stoppages decreased due to the decrease in the number of stopped factories as compared with the corresponding period last year when the COVID-19 pandemic broke out; on the other hand, (i) salary and employee benefit expenses increased due to the change in classification of part of the sales staff's remuneration from salary and employee benefit expenses in selling and distribution expenses to salary and employee benefit expenses in administrative expenses due to the adjustment of the Group's organizational structure; and (ii) other taxes and fees increased due to the increase in value-added tax as a result of increased revenue.

Reversal of Impairment of/(Impairment of) Financial Assets

The Group recorded a reversal of the impairment of financial assets of approximately RMB3.8 million for the Period, while the Group recorded an impairment of financial assets of approximately RMB1.3 million for the six months ended 30 June 2020, it was due to the decrease in the overdue trade and bills receivables balance.

Other Expenses

The other expenses of the Group increased by approximately RMB1.4 million from approximately RMB1.9 million for the six months ended 30 June 2020 to approximately RMB3.3 million for the Period, which was mainly attributable to losses on disposal of non-current assets of approximately RMB3.1 million due to the closure of some poorly operated stores.

Finance Costs

The Group's finance costs remained stable at approximately RMB0.4 million for the six months ended 30 June 2021, which was primarily due to the decrease in interest expenses on lease liabilities.

Profit/(Loss) Before Tax

As a result of the foregoing, the Group recorded a profit before tax of approximately RMB48 million for the six months ended 30 June 2021, as compared to a loss before tax of approximately RMB83.2 million for the six months ended 30 June 2020.

Income Tax (Expense)/Credit

The Group's income tax credit was RMB30.9 million for the six month ended 30 June 2020, while the income tax expense was RMB9.9 million for the Period, which was mainly attributable to the increase in current income tax expense as a result of the increase in the assessable profit for the Period, The Group's effective tax rates for the Period was different from the PRC statutory income tax rate of 25%. The difference was mainly attributable to the above-mentioned recognition of the deferred tax assets and income derived from preliminary agricultural proceed products which was not subject to income tax in China.

Profit/(Loss) for the Period

The Group recorded a profit of approximately RMB38 million for the Period, as compared to a loss of the Group of approximately RMB52.3 million for the six months ended 30 June 2020.

Financial Resources Review

Working Capital and Financial Resources

	As at 30 June 2021 (RMB million)	As at 31 December 2020 (RMB million)
Trade and bills receivables	135.7	161.9
Trade payables	46.3	52.6
Inventories	59.2	92
Trade receivables turnover days ⁽¹⁾	36	49
Trade payables turnover days ⁽²⁾	41	52
Inventory turnover days ⁽³⁾	62	87

Notes:

- (1) Trade receivables turnover days = number of days in the reporting period x (average balance of trade receivables at the beginning and at the end of the relevant period)/revenue in the reporting period.
- (2) Trade payables turnover days = number of days in the reporting period x (average balance of the trade payables at the beginning and at the end of the relevant period)/cost of sales in the reporting period.
- (3) Inventory turnover days = number of days in the reporting period x (average balance of inventory at the beginning and at the end of the relevant period)/cost of sales in the reporting period.

The decrease in trade and bills receivables and the decrease in trade receivables turnover days were mainly attributable to the tight control of the credit terms granted to its customers and reduction of the credit period granted to customers by the Group.

The decrease in trade payables and the decrease in trade payables turnover days were mainly attributable to the tight control of the credit terms granted from its suppliers and reduction of the credit period granted to the Group by suppliers.

The decrease in inventories and the decrease in inventory turnover days were primarily attributable to the Group's implementation of rigid inventory control measures during the Period.

Liquidity and Financial Resources

As at 30 June 2021, the Group's cash and cash equivalents amounted to RMB659 million, representing an increase of approximately 16.8% from RMB564.2 million as at 31 December 2020.

The Group's primary uses of cash were payment for suppliers, daily operating expenses and purchase of financial assets (i.e. wealth management products). The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 30 June 2021, the Group had net current asset of RMB704.1 million, as compared with net current asset of RMB665.5 million as at 31 December 2020.

Currency Exposure and Management

The Group operates its business in China and conducts domestic business in RMB. Substantially all of the Group's assets are denominated in RMB, and the Group mainly incurs cost in HK\$ and RMB. The Group is exposed to foreign exchange risk with respect mainly to HK\$ which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of HK\$ and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

Contingent Liabilities

As at 30 June 2021, the Group had no contingent liabilities.

Pledge of Assets

As at 30 June 2021, the Group did not pledge any assets.

Gearing Ratio

As at 30 June 2021, the Group's gearing ratio (calculated by dividing total debt by total assets as of the end of each period) was approximately 1.2% (31 December 2020: 1.4%).

Employees and Remuneration Policy

As at 30 June 2021, the Group had 696 employees, as compared with 739 employees as at 31 December 2020. For the Period, costs of employees, excluding Directors' emoluments, amounted to a total of RMB82.9 million, representing a decrease of approximately 6.8% from RMB88.9 million during the corresponding period in 2020. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. As at 31 December 2020, 63,875,219 share options were outstanding. During the Period, 182,717 share options had cancelled and no share options had been exercised. As at 30 June 2021, 63,692,502 share options were outstanding.

Significant Acquisition, Disposal or Investment

During the Period, the Group did not have any significant acquisition and disposals of subsidiaries and associated companies, or significant investment.

OTHER INFORMATION

Corporate Governance

The Board has committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and formulate its business strategies and policies as well as to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules and has also put in place certain recommended best practices as set out in the CG Code.

The Board is of the opinion that the Company has complied with all the provisions set out in the CG Code throughout the Period.

Purchase, Sale and Redemption of Shares

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the Period.

Events after the Period

There was no significant subsequent event relevant to the business or financial performance of the Group that come to the attention of the Directors since 30 June 2021.

Use of Proceeds from the Listing

Net proceeds from the global offering of the Company's offer Shares amounted to approximately HK\$636.8 million (after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the Global Offering). The following table sets forth the use of proceeds by the Group as at 30 June 2021:

	Budget	Amount that had been utilized as at 30 June 2021 (HK\$ million)	Remaining balance as at 30 June 2021
To further enhance the integrated distribution platform and optimise our channel mix	222.9	222.9	–
– To expand the online presence through further developing the technology infrastructure	22.3	22.3	–
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	22.3	–
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	44.6	–
– To expand into and introduce our existing and/or new products at various high-frequency “on-the-go” consumption channels	133.7	133.7	–
To construct the new Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	268.4	113.7
To use for general corporate purposes	31.8	31.8	–
Total	636.8	523.1	113.7

As at 30 June 2021, the Group holds the unutilised net proceeds as deposit with creditworthy banks with no recent history of default. There has been no change to the intended use of net proceeds as previously disclosed in the prospectus of the Company dated 29 November 2018. The proceeds were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the prospectus of the Company.

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange on 12 December 2018, the Board 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 the code for the dealings in securities transactions by the Directors. All Directors have confirmed that they complied with the provisions of the Model Code throughout the Period.

Audit Committee

As of the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) consists of Mr. Zhang Senquan, Mr. Hu Peng and Mr. Ouyang Liangyi, who are independent non-executive Directors of the Company. The chairman of the Audit Committee is Mr. Zhang Senquan. The unaudited interim condensed consolidated financial statements for the Period of the Company have been reviewed by the Audit Committee.

Review of Preliminary Announcement

The unaudited interim results for the Period have been reviewed by the Company's auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.szwgmf.com>). The interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

By order of the Board
Natural Food International Holding Limited
GUI Changqing
Chairman

Hong Kong, 26 August 2021

As at the date of this announcement, the executive Directors are Ms. GUI Changqing and Mr. ZHANG Zejun; the non-executive Directors are Ms. TSE Cheung On Anne and Mr. WANG Duo; and the independent non-executive Directors are Mr. ZHANG Senquan, Mr. HU Peng and Mr. OUYANG Liangyi.