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五谷磨房

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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022 as below.

	2023	2022	Year-on-year
	RMB'000	RMB'000	Change
Revenue	1,845,275	1,719,074	7%
Gross profit	1,181,484	1,098,384	8%
Profit before tax	185,934	137,253	35%
Profit for the year attributable to owners of the Company	152,375	116,462	31%
Earnings per share (expressed in RMB)			
Basic	0.071	0.054	N/A
Diluted	0.070	0.053	N/A

The Board recommends the declaration of a final dividend of RMB0.0323 (equivalent to approximately HK\$0.0356) per ordinary share for the year ended 31 December 2023 (2022: Nil) at an exchange rate of approximately RMB1=HK\$1.1016. Final Dividend will be paid in HK\$. The proposed final dividend is expected to be paid on Friday, 21 June 2024 to shareholders whose names appear on the register of members of the Company on Thursday, 13 June 2024, subject to approval by the shareholders at the forthcoming annual general meeting to be held on Friday, 31 May 2024 (the “**AGM**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

		2023	2022
	Notes	RMB'000	RMB'000
REVENUE	4	1,845,275	1,719,074
Cost of sales		<u>(663,791)</u>	<u>(620,690)</u>
Gross profit		1,181,484	1,098,384
Other income and gains	4	19,494	16,525
Selling and distribution expenses		(897,111)	(890,953)
Administrative expenses		(100,405)	(79,031)
Impairment of financial assets		(16,164)	(5,958)
Other expenses		(950)	(1,067)
Finance costs		<u>(414)</u>	<u>(647)</u>
PROFIT BEFORE TAX	5	185,934	137,253
Income tax expense	6	<u>(33,559)</u>	<u>(20,791)</u>
PROFIT FOR THE YEAR		<u>152,375</u>	<u>116,462</u>
Attributable to:			
Owners of the parent		<u>152,375</u>	<u>116,462</u>

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

Year ended 31 December 2023

	Note	2023	2022
		RMB'000	RMB'000
PROFIT FOR THE YEAR		<u>152,375</u>	<u>116,462</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(7,679)	(45,044)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		<u>9,147</u>	<u>55,610</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>153,843</u>	<u>127,028</u>
Attributable to:			
Owners of the parent		<u>153,843</u>	<u>127,028</u>
Earnings per share	8		
Basic		<u>0.071</u>	<u>0.054</u>
Diluted		<u>0.070</u>	<u>0.053</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		296,305	305,998
Right-of-use assets		38,555	44,867
Intangible assets		275	391
Deferred tax assets		36,937	62,283
Other non-current assets		3,434	–
Total non-current assets		<u>375,506</u>	<u>413,539</u>
CURRENT ASSETS			
Inventories		93,475	81,865
Trade and bills receivables	9	217,818	191,583
Prepayments, other receivables and other assets		48,564	38,876
Amounts due from related parties		2,149	11,098
Cash and bank balances		941,971	781,337
Restricted bank deposits		1,873	556
Total current assets		<u>1,305,850</u>	<u>1,105,315</u>
CURRENT LIABILITIES			
Trade payables	10	97,346	84,888
Contract liabilities		14,583	12,155
Other payables and accruals		108,332	114,145
Lease liabilities		3,980	6,532
Tax payable		48,129	48,371
Total current liabilities		<u>272,370</u>	<u>266,091</u>
NET CURRENT ASSETS		<u>1,033,480</u>	<u>839,224</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,408,986</u>	<u>1,252,763</u>

**CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONTINUED)**

31 December 2023

	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT LIABILITIES		
Deferred income	–	48
Deferred tax liabilities	11,484	9,924
Lease liabilities	1,735	4,736
	<hr/>	<hr/>
Total non-current liabilities	13,219	14,708
	<hr/>	<hr/>
Net assets	1,395,767	1,238,055
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	147	147
Reserves	1,395,620	1,237,908
	<hr/>	<hr/>
Total equity	1,395,767	1,238,055
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

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, Uglund 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 “**Chinese Mainland**”).

In the opinion of directors, as at the date of this announcement, the immediate holding company of the Company is Natural Capital Holding Limited, and the ultimate holding company is Paddy Aroma Investment Limited, which are companies incorporated in BVI.

Information about subsidiaries

Name	Place and date of incorporation/ establishment and place of business	Type of legal entity	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Natural Food International Group Limited	Hong Kong, 14 January 2009	Limited liability company	Hong Kong dollar (“ HK\$ ”)10,000	100%	–	Investment holding
Gold Parsons International Limited (“ Gold Parsons ”)	BVI, 16 December 2009	Limited liability company	United States dollar (“ USD ”)1,783	100%	–	Investment holding
Natural Food Online Limited	Hong Kong, 28 April 2009	Limited liability company	HK\$10,000	–	100%	Investment holding
Shenzhen Natural Food Co., Ltd. #	Chinese Mainland, 15 December 2011	Limited liability company	HK\$8,000,000	–	100%	Sale of natural health food
Tongyuan New Agricultural Development (Huanggang) Co., Ltd. #	Chinese Mainland, 19 October 2009	Limited liability company	HK\$40,000,000	–	100%	Investment holding

Name	Place and date of incorporation/ establishment and place of business	Type of legal entity	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Hubei Fuya Food Science and Technology Co., Ltd.	Chinese Mainland, 30 March 2011	Limited liability company	RMB20,000,000	–	100%	Manufacture and sale of natural health food
Guangxi Guiping Jingu Agricultural Development Co., Ltd.	Chinese Mainland, 1 August 2013	Limited liability company	RMB4,000,000	–	100%	Manufacture and sale of natural health food
Natural Food (Guangzhou) Co., Ltd.#	Chinese Mainland, 16 March 2016	Limited liability company	HK\$135,000,000	–	100%	Manufacture and sale of natural health food
Fuya Foods Technology (Shenzhen) Co., Ltd.#	Chinese Mainland, 4 June 2009	Limited liability company	HK\$21,000,000	–	100%	Investment holding and management and administration
Shenzhen Xiangya Food Co., Ltd.	Chinese Mainland, 9 March 2007	Limited liability company	RMB1,000,000	–	100%	Sale of natural health food
Shenzhen Changqing Food Technology Co., Ltd.	Chinese Mainland, 10 November 2010	Limited liability company	RMB5,000,000	–	100%	Sale of natural health food
Hubei Fuya Food Sales Co., Ltd	Chinese Mainland, 21 January 2022	Limited liability company	RMB5,000,000	–	100%	Sale of natural health food

These subsidiaries were registered as wholly-owned foreign enterprises under Chinese Mainland law.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**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 (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They 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. These 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 Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2.4 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

- (c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, the adoption of amendments to HKAS 12 did not have any material impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022. The Adoption also did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

- (d) Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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), during the years ended 31 December 2022 and 2023.

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

	2023 RMB'000	2022 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>1,845,275</u>	<u>1,719,074</u>

	2023 RMB'000	2022 RMB'000
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>1,845,275</u>	<u>1,719,074</u>

The following table shows the amount of revenue recognised in the current year that was included in the contract liabilities at the beginning of the year:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	<u>12,155</u>	<u>10,511</u>

	2023 RMB'000	2022 RMB'000
<u>Other income and gains</u>		
Government grants*	1,525	3,925
Bank interest income	11,890	6,532
Income from financial assets at fair value through profit or loss	4,812	4,115
Commission income from provision of a sales platform	904	1,114
Others	<u>363</u>	<u>839</u>
Total other income and gains	<u>19,494</u>	<u>16,525</u>

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

5. PROFIT BEFORE TAX

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

	2023 RMB'000	2022 RMB'000
Cost of inventories sold	663,791	620,690
Depreciation of property, plant and equipment	31,354	24,739
Depreciation of right-of-use assets	7,434	7,469
Amortisation of intangible assets	116	212
Lease payments not included in the measurement of lease liabilities	1,752	3,303
Research and development costs*:		
Current year expenditure	11,918	11,456
Employee benefit expense (excluding directors' and chief executive's remuneration and research and development costs)		
Wages and salaries	132,189	135,815
Equity-settled share option expenses	96	291
Equity-settled Share award expenses	3,433	3,682
Pension scheme contributions	4,493	12,318
	<hr/>	<hr/>
Total	140,211	152,106
	<hr/>	<hr/>
Auditor's remuneration	1,943	1,868
Impairment of financial assets		
Impairment of trade receivables	6,066	5,958
Impairment of amounts due from related parties	10,098	–
	<hr/>	<hr/>
Total	16,164	5,958
	<hr/>	<hr/>
Loss on disposal of items of property, plant and equipment**	58	7
Finance costs	414	647
	<hr/> <hr/>	<hr/> <hr/>

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

** Loss on disposal of items of property, plant and equipment is included in "Other expense" in the consolidated statement of profit or loss and other comprehensive income.

As at the end of each financial year, the Group had no forfeited contributions available to reduce its contributions to the retirement schemes in future years.

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 was not subject to any income tax in the British Virgin Islands and the Cayman Islands during the years ended 31 December 2022 and 2023.

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 years ended 31 December 2022 and 2023.

Taxes on profits assessable in the Chinese Mainland have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the Chinese Mainland Corporate Income Tax Law (the “**Chinese Mainland Tax Law**”) effective on 1 January 2008, the Chinese Mainland corporate income tax rate of the Group’s subsidiaries operating in the Chinese Mainland during the years ended 31 December 2022 and 2023 was 25% on the taxable profits.

During the years ended 31 December 2022 and 2023, 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 Chinese Mainland tax laws.

The income tax expenses of the Group for the years ended 31 December 2022 and 2023 are analysed as follows:

	2023	2022
	RMB’000	RMB’000
Current – Chinese Mainland		
Charge for the year	6,653	13,374
Deferred	26,906	7,417
	<hr/>	<hr/>
Total tax charge for the year	33,559	20,791
	<hr/> <hr/>	<hr/> <hr/>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates are as follows:

	2023		2022	
	RMB'000	%	RMB'000	%
Profit before tax	<u>185,934</u>		<u>137,253</u>	
Tax at the applicable statutory rate	48,374	26.0	36,468	26.6
Effect of withholding tax on the distributable profits of the Group's Chinese Mainland subsidiaries	1,560	0.8	2,400	1.7
Adjustments in respect of current tax of previous periods	370	0.2	895	0.7
Income not subject to tax *	(18,772)	(10.1)	(27,253)	(19.9)
Expenses not deductible for tax	521	0.3	476	0.3
Deferred tax expense arising from the write-down of a deferred tax asset	–	0.0	5,791	4.2
Tax losses not recognised	<u>1,506</u>	<u>0.8</u>	<u>2,014</u>	<u>1.5</u>
Tax charge at the effective rate	<u>33,559</u>	<u>18.0</u>	<u>20,791</u>	<u>15.2</u>

* According to *Notice of the Ministry of Finance and the State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (for Trial Implementation)* promulgated on 20 November 2008, and *Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax* issued on 11 May 2011, the income derived from the prescribed scope of preliminarily-processed agricultural products can be exempted from corporate income tax. During the years ended 31 December 2022 and 2023, Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd, had such income derived from preliminarily-processed agricultural products which was not subject to corporate income tax.

7. DIVIDENDS

	2023	2022
	RMB'000	RMB'000
Proposed Final – RMB0.0323 (2022: Nil) per ordinary share	<u>70,000</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the for the coming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

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

	2023 RMB'000	2022 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>152,375</u>	<u>116,462</u>
	2023	2022
Shares		
Weighted average number of ordinary shares in issue	2,148,666,000	2,188,514,000
Weighted average number of shares held for the share award scheme	<u>11,052,493</u>	<u>(19,096,668)</u>
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>2,159,718,493</u>	<u>2,169,417,332</u>
Effect of dilution – weighted average number of ordinary shares: Share award	<u>2,921,458</u>	<u>8,366,227</u>
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>2,162,639,951</u>	<u>2,177,783,559</u>

The share option had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share for the years ended 31 December 2023 and 2022.

9. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	215,877	195,685
Bills receivable	4,333	5,183
Impairment	<u>(2,392)</u>	<u>(9,285)</u>
Net Carrying amount	<u>217,818</u>	<u>191,583</u>

The Group's trading terms with its customers 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 customers, 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 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:

	2023 RMB'000	2022 RMB'000
Within 1 month	215,651	185,901
1 to 2 months	1,807	2,956
2 to 3 months	71	1,136
Over 3 months	<u>289</u>	<u>1,590</u>
	<u>217,818</u>	<u>191,583</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:

	2023	2022
	RMB'000	RMB'000
Within 1 month	75,621	62,223
1 to 2 months	19,653	19,612
2 to 3 months	690	1,672
Over 3 months	1,382	1,381
	<hr/>	<hr/>
Total	97,346	84,888
	<hr/> <hr/>	<hr/> <hr/>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Brand Building and Marketing

Embracing “becoming the No. 1 new Chinese dietary nutrition brand” as the long-term vision of the Company, we have formed our product portfolio with dietary nutrition as the core and health as the root, and underlying the traditional Chinese “Homology of medicine and food” ancient dietetic recipes and combined with modern nutriology to persist in producing healthy food that we and our family can enjoy the most. Our main products include dietetic grain powder, Chinese-style dietetic snacks, etc., which inject health and vitality into consumers within a pleasant and energetic day in the form of nutritious breakfast or health snacks.

To better convey the brand value proposition, we insisted on good ingredients, no additives and more professionalism to create a professional and trustworthy brand image. To this end, we actively cooperate with various professional institutions to empower product research and development with technology. In cooperation with the Oil Crops Research Institute of the Chinese Academy of Agricultural Sciences, we jointly cultivated and planted a new strain “Black Nutrition 1” with high sesamin content, which greatly increases the sesamin content of the product and brings benefits to health if this strain is applied to the products. Moreover, we also jointly established the Modern Dietary Nutrition Research and Development Centre with the Chinese Nutrition Society, which provides in-depth analysis of nutrition codes, and carries out various cooperation such as low glycemic index and nutrient-calorie ratio research to ensure product formulations are scientific and precise, nutritious and tasty enough to be favored by our consumers.

Simultaneously, through the “transparent factory”, we invited People’s Daily Online, well-known parenting bloggers and others to visit our production base in Huanggang, Hubei Province, and introduced in an all-round way how we established the supply chain standard of “mother standard” around the eight major modules of selection, cultivation, rubbing, washing, baking, freshening, grinding and inspection, and then disseminate the idea to consumers that our brand is producing health food with high standards.

Furthermore, we cooperated with celebrities, including Charlene Choi, Gillian Chung, and Carman Lee to name a few through their strong influence and reputation in areas such as dietary nutrition and health, “being beautiful and ageless”, to attract wider target consumer groups. In addition to celebrities, we have partnered with a number of KOLs and KOCs to create a comprehensive and three-dimensional image of the brand of dietary nutrition in consumers’ minds through the creation of a product consumption scene and feedback on product experience.

We not only pay attention to the health of consumers but also to the health of the natural environment. As we believe that a good natural environment can breed high-quality ingredients, therefore we joined hands with the Green River, a non-profit organization, to protect the source of the Yangtze River for 11 years through charitable projects by providing volunteers with well-nourished Chinese dietetic cereal health food, funding Green Station, protecting wild animals, and “taking away a bag of garbage”.

Business Review

Distribution Channels

In 2023, offline trade had improved following the market recovery, however, the market landscape in which consumers were more inclined to buy goods online had undergone structural changes, and as a result, our distribution channels also faced changes in line with the development of the times.

E-commerce

E-commerce channels have developed rapidly and vigorously in recent years, the landscape has gradually changed from being occupied by traditional e-commerce platforms such as Taobao, Tmall and JD.com to the balanced development of traditional e-commerce, and social e-commerce represented by Douyin and Kuaishou. As a result, we have developed differentiated marketing directions and sales strategies for different e-commerce platforms, continued to deepen cooperation with each platform, accelerated the penetration into more online channels and conducted precise marketing for different target consumer groups to meet the diversified needs of consumers. During the financial period, our e-commerce business increased by 6.1% year-on-year, contributing 45.8% of the overall income of the Group (FY2022 : 46.4%).

On the traditional e-commerce platforms, we attach great importance to precise delivery and carry out broadcasting through the platform's diversified marketing activities and key marketing nodes. We adhere to standard and regulated operation criteria to ensure that contents are in line with brand image, bringing consumers a good online shopping experience. During the financial year, we have once again become the No.1 brand of drinks and food supplement powder in terms of store sales ranking on Tmall during the Singles' Day carnival.

On the social e-commerce platforms, we quickly promote the marketing and sales of flagship products through a combination of self-live streaming, KOL engagement and brand marketing. During the financial year, we were among the real-time leaderboard of top-sellers of big name milk beverages on the shopping mall during the Singles' Day carnival by TikTok.

New channels

With the increasing living standards of residents and the rapid development of membership-based high-end and boutique supermarkets, we seize the opportunity to cooperate with representative enterprises of membership-based supermarkets and leverage our brand advantages and supply chain advantages to offer them customized products, keep on innovating and achieve rewarding results.

In addition, we continue to develop high-potential distributors to distribute our products to a wider outlet network and benefit more consumer groups.

In recent years, we have stepped up the development of a new channel business. During the financial year, our new channel business increased by 48.1% year-on-year, contributing 14.4% (FY2022:10.4%) to the overall income of the Group with satisfactory performance.

Concessionary Counters Business

Concessionary counters business is not only one of our important sales channels but also an important window for a brand in facing consumers.

In terms of concessionary counter design, we focus on embodying the atmosphere of Chinese nourishment, focusing on "nourishment" as a super sign, emphatically presenting core products and providing customized products to consumers through a flexible product mix.

Despite the current decline in the overall development of offline retail trade under the strong impact of the development of online e-commerce, however, with the thinking of refined operation of our concessionary counter business, despite the business declined by 1.1% year-on-year, the decline is narrowing down and presented a stable development trend.

Products

We believe that an iconic flagship product can better help consumers understand and remember the brand and form a clearer brand image. As such, we focus on creating a flagship product “Walnut Black Bean Sesame Powder”, which combines the concept of Chinese dietary nutrition and takes into account delicious nutrition and taste. We disseminate to consumers through new channels and e-commerce platforms the high-quality raw materials, scientific proportion and health benefits of this product. The result has been widely favoured by consumers. During the financial period, the product was granted “Tmall Natural Grain Powder TOP 1 Brand” by Tmall for six consecutive years.

In addition, we precisely grasped the consumer’s demand for Chinese health snacks and launched the series of “Black Nutrition Sesame Pills”, which combines the consumption boom of sugar-free and multi-flavors with a rich product portfolio. During the financial year, our “Little Genius Walnut Sesame Pills” was awarded the iSEE Top 100 Innovative Brands, the “Black Nutrition Sugar-free Black Sesame Pills” was awarded the Superior Taste Award by the International Taste Institute in Brussels, Belgium.

In light of consumers’ increasing demand for health, we have an insight into the opportunity of healthy food as a holiday gift. A variety of gift box products such as “Nutritional Gift Box”, “Nature-nourishing Gift Box” and “Evergreen Gift” were launched at important festival occasions to satisfy consumer needs to send healthy gifts during the festival.

Future Outlook

Health food, as an area of increasing consumer concern, is full of broad development opportunities. With the change of distribution channels and the deepening awareness of health by consumers, through establishing a strong brand imprint, we can achieve consumer recognition and have a broad range of distribution channels that will bring more potential opportunities for our future development.

Financial Review

Revenue

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

	For the year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Offline channels	1,000,172	54.2	922,243	53.6
Offline concessionary counter	734,298	39.8	742,755	43.2
New channel business	265,874	14.4	179,488	10.4
Online channels	845,103	45.8	796,831	46.4
E-commerce platforms (including WeChat member stores)*	845,103	45.8	796,831	46.4
Total	<u>1,845,275</u>	<u>100.0</u>	<u>1,719,074</u>	<u>100.0</u>

* Due to analysis need, the revenue arising from WeChat member stores during the reporting period was included in the revenue of the e-commerce platform (2022: Offline concessionary counter). The total revenue for the year ended 31 December 2022 remains unchanged, and the classified revenue has been updated to comply with the current classification method.

For the year ended 31 December 2023, the absolute amount of revenue generated from sales through the Group's offline and online channels both increased as compared to the year ended 31 December 2022, among which, the offline channel business recorded a greater growth, which was mainly due to the strong revenue growth of the new channel business as a result of the effective implementation of the Group's new channel business development strategy.

Revenue generated from sales through online channels increased, which was mainly due to (i) the successful promotion of the black sesame expert brand “Black Nutrition (黑之養)”, the star product named “Walnut Black Bean Sesame Powder (核桃黑豆芝麻粉)”, walnuts expert brand “Little Genius (小天才)” and Nutritional Gift Box (食養禮盒); and (ii) the E-commerce team has well operated the traditional E-commerce channels and other social E-commerce platforms including Douyin store and WeChat member stores, which contributed to an increase in revenue generated from online channels.

As a percentage to the total revenue, revenues generated from sales through the offline channels slightly increased from 53.6% in 2022 to 54.2% in 2023, while revenue generated from sales through the online channels slightly decreased from 46.4% in 2022 to 45.8% in 2023.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 6.9% from RMB620.7 million for the year ended 31 December 2022 to RMB663.8 million for the year ended 31 December 2023, which was mainly attributable to (i) an increase in sales volume and production volume that led to the increase in raw material cost, direct labor cost and manufacturing cost; and (ii) an increase in transportation expenses, related to fulfilling the customer contract. Gross profit for the Group increased from approximately RMB1,098.4 million for the year ended 31 December 2022 to approximately RMB1,181.5 million for the year ended 31 December 2023. The gross profit margin increased from 63.9% for the year ended 31 December 2022 to 64.0% for the year ended 31 December 2023, which was mainly due to the growth in overall revenue and a slight increase in cost of sales.

Other Income and Gains

Other income and gains of the Group increased by RMB3 million from approximately RMB16.5 million for the year ended 31 December 2022 to approximately RMB19.5 million for the year ended 31 December 2023, which was mainly attributable to an increase in bank interest income.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of commission expense, labour service expense of salesmen, salary and employee benefit expenses, sales promotion expenses and others. The selling and distribution expenses increased from approximately RMB891.0 million for the year ended 31 December 2022 to approximately RMB897.1 million for the year ended 31 December 2023, which was mainly attributable to (i) the increase in promotional and marketing expenses in line with the sales growth; and (ii) the increase in travelling expenses related to business development.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit, other taxes and fees, intermediary service expenses, depreciation and amortisation expense, research and development expenses. The administrative expenses increased from approximately RMB79.0 million for the year ended 31 December 2022 to approximately RMB100.4 million for the year ended 31 December 2023. Such increase was due to (i) the increase in depreciation and amortisation of plant; and (ii) the increase in additional tax related to property tax and value-added tax.

Impairment of Financial Assets

The Group recorded an impairment of financial assets of approximately RMB16.2 million for the year ended 31 December 2023, while the Group recorded an impairment of financial assets of approximately RMB6.0 million for the year ended 31 December 2022, which was mainly attributable to an increase in overdue trade receivables and the impairment treatment due to the ageing of accounts.

Other Expenses

Other expenses of the Group decreased from approximately RMB1.1 million for the year ended 31 December 2022 to approximately RMB1.0 million for the year ended 31 December 2023 primarily due to the decrease in other non-operating expenses.

Finance Costs

For the year ended 31 December 2023, the Group's finance costs decreased from approximately RMB0.6 million for the year ended 31 December 2022 to approximately RMB0.4 million primarily attributable to a decrease in the interest expense on lease liabilities resulting from shorter lease terms.

Profit before Tax

As a result of the foregoing, the Group recorded a profit before tax of approximately RMB185.9 million for the year ended 31 December 2023, while a profit before tax of approximately RMB137.3 million for the year ended 31 December 2022.

Income Tax Expense

The Group's income tax expense was RMB33.6 million for the year ended 31 December 2023, while the income tax expense was RMB20.8 million for the year ended 31 December 2022, which was mainly due to an increase in the Group's profits.

Profit for the Year

The Group recorded a profit of approximately RMB152.4 million for the year ended 31 December 2023, while a profit of approximately RMB116.5 million was recorded for the year ended 31 December 2022, representing an increase of approximately 30.8%.

Financial Resources Review

Working Capital and Financial Resources

	As at 31 December 2023 (RMB million)	As at 31 December 2022 (RMB million)
Trade and bills receivables	217.8	191.6
Trade payables	97.3	84.9
Inventories	93.5	81.9
Trade receivables turnover days ⁽¹⁾	40	39
Trade payables turnover days ⁽²⁾	50	43
Inventory turnover days ⁽³⁾	48	48

Notes:

- (1) Trade receivables turnover days = 365 days x (average balance of trade and bills receivables at the beginning and at the end of the relevant period)/revenue in the reporting period.
- (2) Trade payables turnover days = 365 days 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 = 365 days x (average balance of inventory at the beginning and at the end of the relevant period)/cost of sales in the reporting period.

The increase of trade and bills receivables was primarily attributable to the increase in revenue. The trade receivables turnover days was remained stable at around 40 days for the year ended 31 December 2023.

The increase of trade payables was primarily attributable to an increase in the purchase of raw materials and packaging materials used for production. The trade payables turnover days was remained stable at around 50 days for the year ended 31 December 2023.

The inventories book value was remained stable at around RMB93.5 million as at 31 December 2023 (31 December 2022: RMB81.9 million). The slight increase in inventory was mainly due to the sales growth.

Liquidity and Financial Resources

As at 31 December 2023, the Group's cash and bank deposits amounted to RMB942.0 million, representing an increase of approximately 20.7% from RMB781.3 million as at 31 December 2022.

As of 31 December 2023, the Group's primary uses of cash were payment for suppliers, daily operating expenses, purchase of items of property, plant and equipment, purchase of time deposit and financial assets (i.e. wealth management product) at fair value through profit or loss. The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 31 December 2023, the Group had no interest-bearing borrowings (31 December 2022: nil).

Net cash flows from operating activities were RMB185.9 million in 2023, as compared with net cash flows from operating activities of RMB168.5 million in 2022. Net cash used in investing activities were RMB121.1 million in 2023, as compared with net cash flows used in investing activities of RMB18.6 million in 2022. Net cash flows used in financing activities were RMB7.1 million in 2023, as compared with net cash used in financing activities of RMB25.1 million in 2022.

As at 31 December 2023, the Group had net current asset of RMB1,033.5 million, as compared with net current asset of RMB839.2 million as at 31 December 2022.

Capital Commitments

As at 31 December 2023, the Group had contracted but not provided for capital commitments of approximately RMB5.0 million, which were primarily related to the purchase of property, plant and equipment to be used for the construction of new manufacturing facility in Nansha County Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB6.2 million as at 31 December 2022.

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 the exchange rate between HK\$ and RMB 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 31 December 2023, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2023, the Group had no pledge of assets.

Interest-bearing Gearing Ratio

As at 31 December 2023, the Group's interest-bearing gearing ratio (calculated by dividing total lease liabilities by total assets as of the end of each year) was approximately 0.3% (31 December 2022: 0.7%).

Employees and Remuneration Policy

As at 31 December 2023, the Group had 682 employees, as compared with 697 employees as at 31 December 2022. For the year ended 31 December 2023, costs of employees, excluding Directors' emoluments, amounted to a total of RMB140.2 million, representing a decrease of approximately 8% from RMB156.3 million in 2022. 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.

Determination of directors' remuneration and the remuneration of the executives of the Company: The remuneration committee of the Company makes recommendations to the Board with reference to the prevailing market remuneration levels, based on the qualifications and experience of each director, responsibilities undertaken and contribution to the Group. The Board is authorized by the shareholders of the Company at the annual general meeting to determine the directors' remuneration and the remuneration of the executives, having regard to the Group's operating results, individual performance and comparable market statistics.

Emolument policies of the Group's employees are formulated by management with the authorization by the Board with reference to the qualification and experience of each employee, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position.

Emolument policies include cash and equity incentives. The Group has also adopted a share option scheme and a share award scheme for the purpose of providing incentives to directors, eligible employees and third party service providers. Further details in relation to these schemes will be set out in the "Report of Board of Directors" section of the annual report of the Company for the year ended 31 December 2023.

OTHER INFORMATION

Annual General Meeting

The AGM will be held on Friday, 31 May 2024. A notice convening the AGM will be published and despatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in due course (if despatch is so requested).

Final Dividend

The Board recommends the declaration of a final dividend of RMB0.0323 (equivalent to approximately HK\$0.0356) per ordinary share for the year ended 31 December 2023 (2022: Nil) at an exchange rate of approximately RMB1=HK\$1.1016, based on the average benchmark exchange rate between RMB and HKD as released by the People’s Bank of China as of the date of the Board meeting. The total final dividends will amount to approximately RMB70 million, which represents approximately 45.70% of the Group’s net profit for the year ended 31 December 2023. Final Dividend will be paid in HK\$.

The proposed final dividend is expected to be paid on Friday, 21 June 2024 to shareholders whose names appear on the register of members of the Company on Thursday, 13 June 2024, subject to approval by the shareholders at the forthcoming annual general meeting to be held on Friday, 31 May 2024 (the “**AGM**”).

Book Close Periods

For the purposes of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed during the following period:

- Latest time to lodge transfers documents for registration 4:30 p.m. on Friday, 24 May 2024
- Closure of register of members Monday, 27 May 2024 to Friday, 31 May 2024

To be eligible to attend and vote at the AGM, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2024.

For the purpose of determining the entitlement for the proposed final dividend, the Company's register of members will be closed during the following period:

- Latest time to lodge transfers documents for registration 4:30 p.m. on Thursday, 6 June 2024
- Closure of register of members Friday, 7 June 2024 to Thursday, 13 June 2024

The register of members of the Company will be closed from Friday, 7 June 2024 to Thursday, 13 June 2024, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final 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 Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 June 2024.

Corporate Governance

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability. The Company is committed to the view that the Board should include a balanced composition of Executive Directors and Independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Company has adopted the principles and code provisions of the Corporate Governance Code contained in Part 2 of Appendix C1 of the Listing Rules as its own code of corporate governance. The Board is of the view that during the year ended 31 December 2023, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code.

Corporate Social Responsibility & Environmental Matters

While the Company endeavours to promote business development and strive for greater rewards for its stakeholders, the Group acknowledges its corporate social responsibility to share some burden in building the society where its business has been established and thrived.

The Company is subject to environmental protection laws and regulations promulgated by the governments in the jurisdictions in which the Company operates its business. The Company has dedicated a team of personnel to handle the environmental compliance-related matters, and implemented stringent waste treatment procedures in the manufacturing facilities.

The Group's environmental, social and governance report will be published on the websites of the HKEXnews and the Company in due course.

Purchase, Sale and Redemption of Shares

During 2023, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any listed securities of the Company.

Sufficiency of Public Float

The Company has maintained a sufficient public float from the 1 January 2023 and up to 31 December 2023.

Events after the Reporting Period

The Group had no other significant event relevant to the business or financial performance of the Group that should be brought to the attention of the shareholders since 31 December 2023.

Use of Proceeds from the Listing

The net proceeds will be applied in the manner as set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 29 November 2018. During the year ended 31 December 2023, the breakdown of the intended use and the amount utilised as at 31 December 2023 were as follows:

	Budget (HK\$ million)	Accumulated amount utilised as at 31 December 2022 (HK\$ million)	Amount utilised during the year of 2023 (HK\$ million)	Remaining balance as at 31 December 2023 (HK\$ million)	Expected timeline for unutilised Net Proceeds
To further enhance the integrated distribution platform and optimise our channel mix	222.9	222.9	–	–	N/A
– To expand the online presence through further developing the technology infrastructure	22.3	22.3	–	–	N/A
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	22.3	–	–	N/A
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	44.6	–	–	N/A
– To expand into and introduce our existing and/or new products at various high frequency “on-the-go” consumption channels	133.7	133.7	–	–	N/A
To construct the Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	287.0	21.8	73.3	By end of 2025
To use for general corporate purposes	31.8	31.8	–	–	N/A
Total	636.8	541.7	21.8	73.3	

Currently, the Group holds the unutilised net proceeds as deposit with creditworthy banks with no recent history of default.

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 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 during the year ended 31 December 2023.

Audit Committee

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. The Audit Committee consists of three members, namely Mr. ZHANG Senquan, Mr. HU Peng and Mr. OUYANG Liangyi, all of which are our independent non-executive Directors. Mr. ZHANG Senquan has been appointed as the Chairman of the Audit Committee. The annual results for the year ended 31 December 2023 of the Company have been reviewed by the Audit Committee. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed risk management and internal control with senior management members and external internal control consultant.

Review of Preliminary Announcement

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Company’s auditors to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by the Company’s auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company’s auditors on the preliminary announcement.

Appreciation

The chairman of the Group would like to take this opportunity to thank her fellow Directors for their invaluable advice and guidance, and to each and every one of the staff of the Group for their hard work and loyalty to the Group.

Publication of Financial Results and Annual Report

This annual results announcement is published on the websites of the HKEXnews (<http://www.hkexnews.com>) and the Company (<http://www.szwgmf.com>). The annual report of the Company for the year ended 31 December 2023 containing all the information required by the Listing Rules will be published and despatched to shareholders of the Company (if requested) 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, 25 March 2024

As at the date of this announcement, the executive Directors are Ms. GUI Changqing and Mr. ZHANG Zejun; the non-executive Director 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.