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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

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 2024 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2023 as below.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		**Period-on-period change**
	2024	2023	
	RMB'000	RMB'000	**Increase**
Revenue	**992,383**	873,853	13.56%
Gross profit	**650,013**	558,493	16.39%
Profit before tax	**105,785**	100,979	4.76%
Profit for the period attributable to owners of the company	**90,149**	83,170	8.39%
Earnings per share (expressed in RMB)			
Basic	**0.042**	0.039	7.69%
Diluted	**0.042**	0.039	7.69%

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: Nil).

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

For the six months ended 30 June 2024

	Notes	For the six months ended 30 June 2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
REVENUE	4	**992,383**	873,853
Cost of sales		**(342,370)**	(315,360)
Gross profit		**650,013**	558,493
Other income and gains		**9,142**	10,784
Selling and distribution expenses		**(512,170)**	(426,366)
Administrative expenses		**(40,257)**	(41,299)
Reversal/(Impairment losses) on financial assets		**121**	(40)
Other expenses		**(955)**	(388)
Finance costs		**(109)**	(205)
PROFIT BEFORE TAX	5	**105,785**	100,979
Income tax expense	6	**(15,636)**	(17,809)
PROFIT FOR THE PERIOD		**90,149**	83,170
Attributable to:			
Owners of the parent		**90,149**	83,170
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**0.042**	0.039
Diluted		**0.042**	0.039

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

For the six months ended 30 June 2024

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**90,149**	83,170
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,871)**	(16,869)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	**4,489**	20,309
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**90,767**	86,610
Attributable to:		
Owners of the parent	**90,767**	86,610

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

	Notes	**30 June 2024 RMB'000 (Unaudited)**	31 December 2023 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**293,768**	296,305
Right-of-use assets		**46,331**	38,555
Intangible assets		**248**	275
Deferred tax assets		**30,518**	36,937
Other non-current assets		**4,307**	3,434
Total non-current assets		**375,172**	375,506
CURRENT ASSETS			
Inventories		**69,067**	93,475
Trade and bills receivables	9	**190,265**	217,818
Prepayments, other receivables and other assets		**35,825**	48,564
Amount due from related parties		**16**	2,149
Cash and Bank Balance		**999,116**	941,971
Restricted bank deposits		**–**	1,873
Total current assets		**1,294,289**	1,305,850
CURRENT LIABILITIES			
Trade payables	10	**72,588**	97,346
Contract liabilities		**16,156**	14,583
Other payables and accruals		**97,807**	108,332
Lease liabilities		**4,623**	3,980
Tax payable		**39,762**	48,129
Total current liabilities		**230,936**	272,370
NET CURRENT ASSETS		**1,063,353**	1,033,480
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,438,525**	1,408,986

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2024

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**12,474**	11,484
Lease liabilities	**9,071**	1,735
Total non-current liabilities	**21,545**	13,219
Net assets	**1,416,980**	1,395,767
EQUITY		
Equity attributable to owners of the parent		
Share capital	**147**	147
Reserves	**1,416,833**	1,395,620
Total equity	**1,416,980**	1,395,767

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 2024 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 information does 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 2023.

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 2023, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 16	*Lease Liability in Sale and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "**2020 Amendments**")*
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "**2022 Amendments**")*
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*

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

(a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

(b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

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 2024 and 2023.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Sale of goods	**992,383**	873,853
Timing of revenue recognition		
Goods transferred at a point in time	**992,383**	873,853

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other income and gains		
Government grants*	**379**	1,310
Bank interest income	**5,865**	3,155
Income from financial assets measured at fair value through profit or loss	**2,064**	5,635
Commission income from provision of a sales platform	**180**	106
Others	**654**	578
	9,142	10,784

* 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 BEFORE TAX

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

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold	**342,370**	315,360
Depreciation of property, plant and equipment	**15,059**	16,304
Depreciation of right-of-use assets	**3,441**	3,538
Lease payments not included in the measurement of lease liabilities	**1,266**	1,366
Research and development costs*	**3,473**	2,511
Amortisation of intangible assets	**27**	72
Employee benefit expense (excluding directors' and chief executive's remuneration and research and development costs):		
Wages and salaries	**73,110**	64,930
Equity-settled share option expenses	**126**	107
Equity-settled share award expenses	**841**	2,150
Pension scheme contributions	**2,424**	6,348
(Reversal)/Impairment of trade and bills receivables**	**(121)**	40
Loss on disposal of items of property, plant and equipment	**53**	25
Income from financial assets measured at fair value through profit or loss	**(2,064)**	(5,635)
Finance costs	**109**	205
Bank interest income	**(5,865)**	(3,155)

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

** Impairment of trade and bills receivables is included in "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 2023: 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 2023: 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 2023: 25%) on their taxable profits for the six months ended 30 June 2024 and 2023.

For the six months ended 30 June 2024 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 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	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	**8,226**	3,441
Deferred tax	**7,410**	14,368
Total tax charge for the period	**15,636**	17,809

7. INTERIM DIVIDENDS

The board of directors did not recommend any payment of interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share for the period is based on the profit 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 per share for the period is based on the profit 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 per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended 30 June	
Earnings	**2024**	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**90,149**	83,170

	For the six months ended 30 June	
Shares	**2024**	2023
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**2,167,003,802**	2,151,027,644
Effect of dilution – weighted average number of ordinary shares:		
Share award	**143,749**	365,265
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**2,167,147,551**	2,151,392,909

The share option had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share for the period ended 30 June 2024 and 2023.

9. TRADE AND BILLS RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables	**187,322**	215,877
Bills receivable	**5,214**	4,333
Impairment	**(2,271)**	(2,392)
Net Carrying amount	**190,265**	217,818

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 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 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 1 month	**187,151**	215,651
1 to 2 months	**1,861**	1,807
2 to 3 months	**673**	71
Over 3 months	**580**	289
	190,265	217,818

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 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 1 month	**51,553**	75,621
1 to 2 months	**15,461**	19,653
2 to 3 months	**2,431**	690
Over 3 months	**3,143**	1,382
	72,588	97,346

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

BRAND BUILDING AND MARKETING

Embracing a beautiful vision of becoming the No.1 brand in the New-Chinese style food and recuperation field, we have formed a product portfolio with the diet therapy as our core concept and the health as our fundamental basis. Underlying the traditional Chinese "Homology of medicine and food" ancient dietetic recipes and combined with modern nutriology, we insist on protecting customers' health through food therapy and making functional foods that everyone in the family can eat without worries through the years. Our main products include dietetic grain powder, Chinese-style dietetic snacks, etc., which inject health and vitality into our consumers within a pleasant and energetic day in the form of nutritious breakfast or healthy snacks.

The year 2024 marks the 18th anniversary of Natural Food's establishment. Taking life as an analogy, Natural Food ushered in her Adulthood Ceremony, there is a broader and brighter future ahead waiting for her to explore.

For a long time, we have been favored by consumers as the representative brand of "healthy food". In the past more than ten years of development, we have become more and more aware of the value which we bring to consumers, that is, based on Chinese-style food therapy, bringing consumers well-produced Chinese nutritional cereal products with proper ingredients, correct matching and decent craftsmanship. Therefore, we cooperated with a well-known strategic company providing brand strategy to upgrade our brand strategy as "Wugu Mofang, Nutritious and Healthcare" at the beginning of the year.

With this, we convey our core value of taking Wugu Mofang, our nutritious and healthcare products, to consumers under the concept of following the nature and times through various promotion marketing measures, such as digital marketing, celebrity cooperation, and cooperation with professional organizations by processing selected ingredients inherited by ancient recipes with fine craftsmanship. In our communications with consumers, we carefully display our selected premier ingredients as dietary nourishment and process them one by one uniquely by ancient prescriptions with patented grinding technology through pictures, words, live broadcasts, ingredients illation and other forms.

Products

We believe that a flagship product will enable our brand to be well understood and remembered by consumers, thus helping us to form a distinctive brand image. Therefore, we focus on creating our flagship product "Walnut Sesame Black Bean Powder" (核桃芝麻黑豆粉) that combines nutrition with taste under the concept of Chinese diet and healthcare. By conveying high-quality ingredients, rational matching, and benefits to health to our consumers through new channels and e-commerce platforms, this flagship product receives favours from consumers in general.

To meet consumers' increasing demand for maintaining health, we seize the opportunity of despatching healthy foods as gifts during festive seasons. Thus, we have launched numerous gift boxes to meet consumers' needs for healthy gifts during festivals, including "Nutritional Gift Box" (食養禮盒), "Natural Nutritional Gift Box" (自然之養禮盒) and "Evergreen Gift" (常青禮). During the Lunar Chinese New Year in 2024, our "Nutritious Gift Box" sales for the Spring Festival recorded excellent performance online and offline.

We have also developed various products based on the 24 solar terms to make promotions according to the times. One of our products, "Dampness Gone" (濕旡蹤, Prebiotics Yellow Coix Seed Meal Replacement Powder) is popular among consumers this summer and achieved exciting sales records online and offline.

Distribution Channels

Concessionary Counters Business

The concessionary counters business is not only one of our important sales channels, it is also an important window for a brand to face consumers directly.

Despite our observations that the overall offline retail trade development was under the tremendous impact of online e-commerce development in the past few years, there are still many supermarkets with considerable value of consumer experience thriving against this trend. Hence, we realize that offline retail trade will not be extinguished due to booming online e-commerce development. Instead, it possesses a distinguishing development advantage as it could provide consumers with experiential and immersive experiences. Triggered by this, we constantly think in-depth about the upgrade and development direction of our offline concessionary counters business in the future, specifically how we can seize the opportunity of rapidly developing retail trade with experiential mode by providing better and fresher on-site experiences.

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.

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. 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.

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.

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 the total revenue of the Group, for the period indicated:

	For the six months ended 30 June			
	2024		2023	
	RMB'000	**%**	RMB'000	%
Offline channels	**535,568**	**54.0**	478,709	54.8
Offline concessionary counter	**385,833**	**38.9**	367,862	42.1
New channel business	**149,735**	**15.1**	110,847	12.7
Online channels	**456,815**	**46.0**	395,144	45.2
E-commerce platforms (including WeChat member stores)*	**456,815**	**46.0**	395,144	45.2
Total	**992,383**	**100.0**	873,853	100.0

* 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 (the corresponding period in 2023: Offline concessionary counter). The total revenue for the six months ended 30 June 2023 remains unchanged, and the classified revenue has been updated to comply with the current classification method.

For the six months ended 30 June 2024 (the "**Reporting Period**"), the absolute amount of revenue generated from sales through the offline and online channels both increased as compared to the six months ended 30 June 2023, among which, the absolute amount of revenue generated from sales through online channels increased by a larger margin. The overall increase in revenue generated from sales through online channels was mainly attributable to the successful promotion of brands and the contribution from new products and Nutritional Gift Box.

During the Reporting Period, as a percentage to the total revenue, revenues generated from sales through the offline channels was 54.0% of the total revenue, slightly decreased from the corresponding period in 2023 (the corresponding period in 2023: 54.8%), while revenues generated from sales through the online channels was 46.0% of the total revenue (the corresponding period in 2023: 45.2%).

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 8.6% from RMB315.4 million for the corresponding period in 2023 to RMB342.4 million for the Reporting Period, which was mainly attributable to (i) an increase in sales volume and production volume that led to higher usage of raw materials and inventory movements of finished goods and work in progress; and (ii) an increase in the indirect labour cost.

Gross profit of the Group increased from approximately RMB558.5 million for the corresponding period in 2023 to approximately RMB650.0 million for the Reporting Period. The gross profit margin increased from 63.9% for the corresponding period in 2023 to 65.5% for the Reporting Period, which was mainly due to the growth in overall revenue and a slight increase in cost, having benefited from the decrease in the purchase prices of raw materials and packaging materials as compared to the corresponding period.

Other Income and Gains

Other income and gains of the Group decreased from approximately RMB10.8 million for the corresponding period in 2023 to approximately RMB9.1 million for the Reporting Period, which was mainly attributable to a decrease in income from bank wealth management product and government subsidies.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of advertising and promotional expenses, 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 RMB426.4 million for the corresponding period in 2023 to approximately RMB512.2 million for the Reporting Period, which was mainly attributable to the increase in advertising and promotional expenses and commission expense in line with the sales growth.

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, among others. The administrative expenses decreased from approximately RMB41.3 million for the corresponding period in 2023 to approximately RMB40.3 million for the Reporting Period. Such decrease was due to the relative reduction in administrative salaries and employee benefit expenses as a result of the organizational restructuring during the Reporting Period.

Impairment of Financial Assets

The Group recorded a reversal of financial assets of approximately RMB121 thousand for the Reporting Period, while the Group recorded an impairment of financial assets of approximately RMB40 thousand for the corresponding period in 2023, which was mainly attributable to the shorter ageing of trade receivables at the end of the period, which was better recovered.

Other Expenses

Other expenses of the Group increased from approximately RMB388 thousand for the corresponding period in 2023 to approximately RMB955 thousand for the Reporting Period primarily due to the increase in donation expenses and other non-operating expenses.

Finance Costs

During the Reporting Period, the Group's finance costs decreased from approximately RMB205 thousand for the corresponding period in 2023 to approximately RMB109 thousand, primarily attributable to a decrease in the interest expense on lease liabilities resulting from an increase in short-term and low-value leases.

Profit before Tax

As a result of the foregoing, the Group recorded a profit before tax of approximately RMB105.8 million for the Reporting Period, while a profit before tax of approximately RMB101.0 million for the corresponding period in 2023.

Income Tax Expense

The Group's income tax expense was RMB15.6 million for the Reporting Period, while the income tax expense was RMB17.8 million for the corresponding period in 2023, which was mainly due to the increase in tax-free income resulting in a lower effective tax rate.

Profit for the Period

The Group recorded a profit of approximately RMB90.1 million for the Reporting Period, while a profit of approximately RMB83.2 million was recorded for the corresponding period in 2023, representing an increase of approximately 8.3%.

Financial Resources Review

Working Capital and Financial Resources

	As at 30 June 2024 (RMB million)	As at 31 December 2023 (RMB million)
Trade and bills receivables	**190.3**	217.8
Trade payables	**72.6**	97.3
Inventories	**69.1**	93.5
Trade receivables turnover days[(1)]	**37**	40
Trade payables turnover days[(2)]	**45**	50
Inventory turnover days[(3)]	**43**	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 decrease in trade and bills receivables was primarily attributable to good collection of trade receivables and the shorter ageing of trade receivables at the end of the period. During the Reporting Period, the trade receivables turnover days were 37 days (for the year ended 31 December 2023: 40).

The decrease in trade payables was mainly attributed to the tight control of the credit terms granted from suppliers. During the Reporting Period, the trade payables turnover days were 45 days (for the year ended 31 December 2023: 50).

The inventories book value was approximately RMB69.1 million as at 30 June 2024 (31 December 2023: RMB93.5 million). The decrease in inventories and the decrease in inventory turnover days was primarily attributable to the Group's implementation of rigid inventory control measures during the Reporting Period.

Liquidity and Financial Resources

As at 30 June 2024, the Group's cash and bank deposits amounted to RMB999.1 million, representing an increase of approximately 5.9% from RMB943.8 million as at 31 December 2023.

During the Reporting Period, the Group's primary uses of cash were payment to suppliers, daily operating expenses, renovation and maintenance of plant, purchase of items of 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 30 June 2024, the Group had no interest-bearing borrowings (31 December 2023: nil).

Net cash flows from operating activities were RMB142.2 million in the Reporting Period, as compared with net cash flows from operating activities of RMB102.7 million in the corresponding period in 2023. Net cash flows from investing activities were RMB89.7 million in the Reporting Period, as compared with net cash used in investing activities of RMB3.8 million in the corresponding period in 2023. Net cash used in financing activities were RMB73.9 million in the Reporting Period, as compared with net cash used in financing activities of RMB3.3 million in the corresponding period in 2023.

As at 30 June 2024, the Group had net current asset of RMB1,063.4 million, as compared with net current asset of RMB1,033.5 million as at 31 December 2023.

Capital Commitments

As at 30 June 2024, the Group had contracted but not provided for capital commitments of approximately RMB0.6 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 District, Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB5.0 million as at 31 December 2023.

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 30 June 2024, the Group had no contingent liabilities (31 December 2023: Nil).

Pledge of Assets

As at 30 June 2024, the Group had no pledge of assets (31 December 2023: Nil).

Interest-bearing Gearing Ratio

As at 30 June 2024, the Group's interest-bearing gearing ratio (calculated by dividing total lease liabilities by total assets as of the end of each reporting period) was approximately 0.8% (31 December 2023: 0.3%).

Employees and Remuneration Policy

As at 30 June 2024, the Group had 685 employees, as compared with 682 employees as at 31 December 2023. For the Reporting Period, costs of employees, excluding Directors' emoluments, amounted to a total of RMB76.5 million, representing an increase of approximately 4.1% from RMB73.5 million during the corresponding period in 2023. 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 Company has adopted a sound in-house training policy whereby management, technical and other trainings are provided to employees on a regular basis by in-house trainers or third party consultants.

Determination of directors' remuneration and the remuneration of the senior management 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, their 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 senior management, 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, their responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for employees 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 "Corporate Governance and Other Information – Share Option Scheme" and "Corporate Governance and Other Information – Share Award Scheme" sections of the interim report of the Company for the six months ended 30 June 2024.

Significant Acquisition, Disposal or Investment

During the Reporting Period, the Group did not have any significant acquisition and disposals of subsidiaries, joint ventures and associated companies, nor significant investment.

Future Plans for Significant Investments or Capital Assets

There were no significant investments or capital asset plans during the Reporting Period and up to the date of this announcement.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company is committed to fulfilling its responsibilities to its Shareholders and protecting and enhancing Shareholders' value through good corporate governance.

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures, internal control and risk management procedures of the Group 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 Board continues to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code and Corporate Governance Report set out in Appendix C1 to the Listing Rules so as to maintain a high standard of corporate governance of the Company.

The Company has applied the principles and code provisions of the Corporate Governance Code as set out in Part 2 of Appendix C1 to the Listing Rules as its own code of corporate governance.

The Board is of the view that during the six months ended 30 June 2024, the Company has complied with applicable code provisions as set out in the Corporate Governance Code.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix C3 to the Listing Rules as its own code of conduct governing the securities transactions by the Directors. Following specific enquiries made by the Company on each of the Directors, all Directors have confirmed that they had complied with the Model Code during the Reporting Period.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company during the Reporting Period.

Disclosure on Share Award Scheme

The Company has adopted a share award scheme (the "**Share Award Scheme**") on 28 March 2022. A summary of the principal terms of the Share Award Scheme was set out in the annual report of the Company published on 26 April 2024.

On 11 May 2022, the Company granted 18,800,000 restricted share units under the Share Award Scheme ("**RSU**") to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2022.

On 25 May 2023, the Company granted 7,200,000 RSU to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2023.

On 25 May 2024, the Company granted 7,400,000 RSU to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2024.

The identity of the grantees and the number of RSU granted to each grantee was reviewed and approved by the Company's Remuneration Committee after having taken into account the performance targets for the relevant financial period. The performance targets are related to the profitability of the Group as a whole and the operational performance of various departments in which the grantees work during the year.

The vesting of these awarded shares is subject to the satisfaction of vesting conditions specified in the award notice issued to each of the respective grantees. The performance targets attached to the awarded shares, which form part of the vesting conditions, include operational indicators, such as targets for revenue, net profit of the Group, sales income and net operating profit of various sales channels. In the event of a non-satisfactory rating in the annual performance review, the whole or the portion of awards to become vested in such year to the grantee shall be void and forfeited.

As at 30 June 2024, the total number of RSU available for further awards under the Share Award Scheme was 9,808,000, representing approximately 0.4% of the Shares in issue as at the date hereof.

The awarded shares have been acquired in 2022 by a trustee (the "**Trustee**") from the open market with funds provided by the Company with its internal resources for the purpose of the Share Award Scheme. Once the awarded shares are vested and become eligible to transfer, the awarded shares shall be transferred to the grantees from the Trustee at the request of the grantees. Therefore, the grant of the awarded shares will not result in any issue of new Shares or any dilution effect on the shareholdings of existing Shareholders.

Purchase, Sale and Redemption of Shares

There was no purchase, sale (including sale of treasury shares, if any) and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the Reporting Period.

As at 30 June 2024, the Company did not have any treasury shares.

Events after the Reporting Period

There was no significant subsequent event or any material change relevant to the business or financial performance of the Group that come to the attention of the Directors since 30 June 2024.

Use of Proceeds from the Global Offering

The Shares of the Company were listed on the Main Board of the Stock Exchange on 12 December 2018 with net proceeds from the Global Offering of 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) and the balance of unutilised net proceeds of approximately HK$73.3 million as at the beginning of the Reporting Period and approximately HK$66.47 million as at 30 June 2024.

The net proceeds from the Global Offering have been and will be utilised in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds from the Global Offering of the Group and actual usage up to 30 June 2024:

	Budget *(HK$ million)*	**Accumulated amount utilised as at 31 December 2023** *(HK$ million)*	**Amount utilised during the Reporting Period** *(HK$ million)*	**Remaining balance as at 30 June 2024** *(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 new Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	308.8	6.83	66.47	By the end of 2028*
To use for general corporate purposes	31.8	31.8	–	–	N/A
Total	**636.8**	**563.5**	6.83	66.47	

* The deferred use of the net proceeds intended for such purpose is due to the fact that the Group's current production capacity and working capital are sufficient and therefore there is no need to utilise the net proceeds from the Global Offering for the purchase of production equipment, etc.

As at 30 June 2024, the Group held 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. 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.

Changes In the Information of Directors and Chief Executives

Since the publication of the 2023 annual report to the date of this announcement, there have been no changes in the information of the Directors and chief executives of the Company that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules save and except that:

- Ms. Tse Cheung On Anne, a non-executive Director, has been acting as the Chief Consumer Officer in the Asia Pacific of PepsiCo, Inc. from February 2024 onwards.

- Mr. Zhang Senquan, an independent non-executive Director, was appointed as an independent non-executive director of TYK Medicines, Inc (the shares of which have been listed on the Stock Exchange (stock code: 2410) since 20 August 2024) on 17 January 2024 and an independent non-executive director of Chenqi Technology Limited (the shares of which have been listed on the Stock Exchange (stock code: 9680)) since 28 June 2024.

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 Reporting Period of the Company have been reviewed by the Audit Committee.

Review of the Interim Results by Auditor

The unaudited interim condensed consolidated financial statements of the Group for the Reporting Period has been reviewed by the auditors of the Company, 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 2024 containing all the information required by the Listing Rules will be 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, 28 August 2024

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.