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 2019

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 2019, together with the comparative figures for the year ended 31 December 2018 as below.

FINANCIAL HIGHLIGHTS

	Year Ended 31 December 2019 RMB'000	2018 RMB'000	Year-on-year Change Increase/ (Decrease)
Revenue	1,784,086	1,818,066	(1.87)%
Gross profit	1,319,202	1,390,668	(5.14)%
Profit before tax	140,065	127,633	9.74%
Adjusted net profit	126,330	213,001	(40.69)%
Profit for the year attributable to owners of the Company	126,330	105,239	20.04%
Earnings per share (expressed in RMB)			
Basis	0.06	0.06	–
Diluted	0.06	0.06	–

Note:

Adjusted net profit represents profit for the year before loss on fair value changes of convertible and redeemable preferred shares and listing expenses. Adjusted net profit is not a standard measure under HKFRSs. To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Group has presented adjusted net profit as an additional measure to evaluate the financial performance of the Group by considering the impact of certain items that the Group believes to be frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry that the Group operates in and by eliminating the impact of certain unusual and non-recurring item that the Group does not consider indicative of the performance of the Group's business.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
REVENUE	4	**1,784,086**	1,818,066
Cost of sales		**(464,884)**	(427,398)
Gross profit		**1,319,202**	1,390,668
Other income and gains	4	**22,854**	21,970
Selling and distribution expenses		**(1,092,422)**	(1,070,944)
Administrative expenses		**(102,905)**	(133,161)
Impairment losses on financial assets		**(4,590)**	(3,233)
Other expenses		**(1,259)**	(1,525)
Finance costs		**(815)**	(436)
Loss on fair value changes of convertible and redeemable preferred shares		**–**	(75,706)
PROFIT BEFORE TAX	5	**140,065**	127,633
Income tax expense	6	**(13,735)**	(22,394)
PROFIT FOR THE YEAR		**126,330**	105,239
Attributable to:			
Owners of the parent		**126,330**	105,239
Non-controlling interests		**–**	–
		126,330	105,239

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

For the year ended 31 December 2019

	Note	**2019** RMB'000	2018 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(10,286)**	(7,788)
Other comprehensive income/(loss) that will not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**15,763**	(16,932)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**131,807**	80,519
Attributable to:			
Owners of the parent		**131,807**	80,519
Non-controlling interests		**–**	–
		131,807	80,519
Earnings per share (expressed in RMB)	8		
Basic		**0.06**	0.06
Diluted		**0.06**	0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**299,772**	212,646
Right-of-use assets		**58,611**	–
Prepaid land lease payments		**–**	36,640
Intangible assets		**1,045**	1,543
Deferred tax assets		**19,958**	18,448
Total non-current assets		**379,386**	269,277
CURRENT ASSETS			
Inventories		**113,957**	122,286
Trade and bills receivables	9	**225,583**	239,602
Financial assets at fair value through profit or loss		**–**	71,400
Prepayments, other receivables and other assets		**67,065**	59,423
Amounts due from a director		**6**	–
Amounts due from a related party		**10,802**	9,375
Time deposits		**–**	25,000
Cash and cash equivalents		**558,048**	604,913
Restricted bank deposits		**555**	–
Total current assets		**976,016**	1,131,999
CURRENT LIABILITIES			
Trade payables	10	**63,265**	72,121
Interest-bearing borrowing		**–**	70,096
Contract liabilities		**10,762**	16,669
Other payables and accruals		**133,462**	137,357
Lease liabilities		**5,565**	–
Tax payable		**32,915**	27,570
Total current liabilities		**245,969**	323,813
NET CURRENT ASSETS		**730,047**	808,186
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,109,433**	1,077,463

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	2019	2018
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Deferred income	**88**	277
Deferred tax liabilities	**3,324**	4,361
Lease liabilities	**16,180**	–
Total non-current liabilities	**19,592**	4,638
Net assets	**1,089,841**	1,072,825
EQUITY		
Equity attributable to owners of the parent		
Share capital	**147**	149
Treasury shares	**(6,359)**	–
Other reserves	**1,096,053**	1,072,676
Non-controlling interests	**–**	–
Total equity	**1,089,841**	1,072,825

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, 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").

Information about subsidiaries

Name	Place and date of incorporation/ establishment and place of business	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	Hong Kong dollar ("HK$")10,000	100%	–	Investment holding
Gold Parsons International Limited ("Gold Parsons")	BVI, 16 December 2009	United States dollar ("USD")1,783	100%	–	Investment holding
Natural Food Online Limited	Hong Kong, 28 April 2009	HK$10,000	–	100%	Investment holding
Shenzhen Natural Food Co., Ltd. #	PRC, 15 December, 2011	HK$8,000,000	–	100%	Sale of natural health food
Tongyuan New Agricultural Development (Huanggang) Co., Ltd. #	PRC, 19 October 2009	HK$40,000,000	–	100%	Investment holding
Hubei Fuya Food Science and Technology Co., Ltd.	PRC, 30 March 2011	RMB20,000,000	–	100%	Manufacture and sale of natural health food
Guangxi Guiping Jingu Agricultural Development Co., Ltd.	PRC, 1 August 2013	RMB4,000,000	–	100%	Manufacture and sale of natural health food

Name	Place and date of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Natural Food (Guangzhou) Co., Ltd. #	PRC, 16 March 2016	HK$135,000,000	–	100%	Manufacture and sale of natural health food
Fuya Food Technology (Shenzhen) Co., Ltd. #	PRC, 4 June 2009	HK$21,000,000	–	100%	Investment holding and management and administration
Shenzhen Xiangya Food Co., Ltd.	PRC, 9 March 2007	RMB1,000,000	–	100%	Sale of natural health food
Shenzhen Changqing Food Technology Co., Ltd.	PRC, 10 November 2010	RMB5,000,000	–	100%	Sale of natural health food

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, 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. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK (IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards are not relevant to the preparation of the Group's consolidated financial statements. The nature and impact of the new and revised HKFRS are described below:

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and plant. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. The current and non-current portions of prepaid lease payments, which represent medium-term leasehold lands in the PRC, amounting to RMB859,000 and RMB36,640,000 respectively were reclassified to right-of-use assets at 1 January 2019.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	41,347
Decrease in prepaid land lease payments	(36,640)
Decrease in prepayments, other receivables and other assets	(2,216)
Increase in total assets	2,491
Liabilities	
Increase in lease liabilities – current	751
Increase in lease liabilities – non-current	1,740
Increase in total liabilities	2,491

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	4,725
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	4,715
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(3,504)
Add: Payments for optional extension periods not recognised as at 31 December 2018	1,280
Lease liabilities as at 1 January 2019	2,491

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 2018 and 2019.

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

	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods	**1,784,086**	1,818,066

	2019	2018
	RMB'000	RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**1,784,086**	1,818,066

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

	2019	2018
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**16,669**	20,623

	2019	2018
	RMB'000	RMB'000
Other income and gains		
Government grants*	**10,550**	9,400
Other interest income	**–**	1,499
Bank interest income	**2,512**	1,206
Interest income from loans to a related party	**–**	63
Income from financial assets at fair value through profit or loss	**3,335**	4,868
Commission income from provision of a sales platform	**5,789**	4,211
Others	**668**	723
	22,854	21,970

* 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):

	2019	2018
	RMB'000	RMB'000
Cost of inventories sold	**464,884**	427,398
Depreciation of property, plant and equipment	**28,873**	25,124
Depreciation of right-of-use assets	**5,528**	–
Amortisation of land lease payments	**–**	860
Minimum lease payments under operating leases	**–**	10,641
Lease payments not included in the measurement of lease liabilities	**6,467**	–
Research and development costs*	**8,485**	7,243
Amortisation of intangible assets	**607**	660
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**168,206**	165,983
Equity-settled share option expenses	**14,821**	–
Pension scheme contributions	**18,438**	24,951
Auditors' remuneration	**1,887**	1,577
Listing expenses	**–**	32,056
Impairment of trade receivables**	**4,590**	3,233
Loss on disposal of items of property, plant and equipment	**335**	893
Loss on fair value changes of convertible and redeemable preferred shares	**–**	75,706
Finance costs	**815**	436
Bank interest income	**(2,512)**	(1,206)

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

** Impairment of trade receivables is included in "Impairment losses on financial assets" in the 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 years ended 31 December 2018 and 2019.

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 2018 and 2019.

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 during the years ended 31 December 2018 and 2019 was 25% on their taxable profits.

During the years ended 31 December 2018 and 2019, 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 income tax expenses of the Group for the years ended 31 December 2018 and 2019 are analysed as follows:

	2019	2018
	RMB'000	RMB'000
Current – PRC		
Charge for the year	**13,061**	16,288
Deferred	**674**	6,106
Total tax charge for the year	**13,735**	22,394

7. DIVIDENDS

At the board meeting held on 28 March 2019, the board proposed a final dividend in respect of the year ended 31 December 2018 of RMB0.02 per ordinary share of the Company. Such proposed dividend totaling RMB45,012,000 was approved by the shareholders on 31 May 2019 and paid on 30 June 2019 and on 1 August 2019, respectively.

At the board meeting held on 29 August 2019, the board proposed an interim dividend (the "**2019 Interim Dividend**") in respect of the period ended 30 June 2019 of RMB0.0181 per ordinary share of the Company. The 2019 Interim Dividend totalling RMB39,604,000 was paid on 25 September 2019.

In light of the payment of the 2019 Interim Dividend, the Directors do not recommend any payment of final dividend for the year ended 31 December 2019.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

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, adjusted to reflect fair value changes of convertible and redeemable preferred shares. 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:

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**126,330**	105,239
Adjustment:		
Fair value changes of convertible and redeemable preferred shares	**–**	75,706
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation	**126,330**	180,945

	2019	2018
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**2,199,559,819**	1,624,552,877
Effect of dilution – weighted average number of ordinary shares:		
Convertible and redeemable preferred shares	**–**	197,362,192
Share options	**–**	–
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**2,199,559,819****	1,821,915,069*

* Because the diluted earnings per share amount is increased when taking the convertible and redeemable preferred shares into account, the convertible and redeemable preferred shares had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2018 and were ignored in the calculation of diluted earnings per share.

** The share options had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2019 and were ignored in the calculation of diluted earnings per share.

9. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**217,049**	241,690
Bills receivable	**19,184**	3,972
Impairment	**(10,650)**	(6,060)
	225,583	239,602

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

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

	2019	2018
	RMB'000	RMB'000
Within 1 month	**179,945**	186,513
1 to 2 months	**28,109**	22,839
2 to 3 months	**4,796**	12,815
Over 3 months	**12,733**	17,435
	225,583	239,602

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2019	2018
	RMB'000	RMB'000
At beginning of year	**6,060**	2,827
Impairment losses	**4,590**	3,233
At end of year	**10,650**	6,060

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:

	2019	2018
	RMB'000	RMB'000
Within 1 month	**47,100**	62,491
1 to 2 months	**11,772**	6,081
2 to 3 months	**2,567**	2,057
Over 3 months	**1,826**	1,492
	63,265	72,121

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2019, the Group's business was mainly focused on the proactive adjustment to the development schedule to prepare itself for the improvement in the sales efficiency of various sales channels, the continuous enrichment of product mix, the development of products with promising potential and the continuous optimization and improvement of the internal incentive mechanism. All these efforts served to lay a solid ground for the long term development of the Company. As at 31 December 2019, the Group recorded a revenue of RMB1,784.1 million, representing a year-on-year decrease of 1.9%. The Group recorded a net profit of RMB126.3 million, representing a year-on-year increase of 20%.

The decrease in revenue was mainly due to the proactive adjustment to the development schedule, pursuant to which, 958 concessionary counters which did not meet the Company's expectation were closed during the year ended 31 December 2019.

Products

In 2019, the Group continued to develop the natural mixed grain powder products as its key category and consistently improved the formula and upgraded the packaging of existing key products, with a view to consolidating the market leading position of its key products. At the same time, in order to meet consumers' demand for healthy food under different consumption scenarios, the Group took the lead to introduce and develop new product categories, aiming to provide consumers with natural, healthy, additive-free, delicious and convenient products.

In 2019, "Eight Treasure" probiotics & grains powder (益生元八珍粉), one of the Company's key products, collaborated with Beijing Meiweifengyun Culture Development Co., Ltd. (北京美味風雲文化發展有限公司) to launch the forbidden city co-branded product featuring "palace healthcare". In addition, after extensive market research, the Group has developed a variety of convenient healthy food products for easy carrying and consumption, and launched different types of high-end fruit oatmeal and snacks, including rainbow crisp, black sesame pellets, red bean and pearl barley pellets, which were well received by consumers.

Offline Channels

The Group has focused its business development in China for more than a decade and has established a nationwide sales network. As at 31 December 2019, the Group operated 3,399 concessionary counters in 289 cities across 30 provinces and municipalities in China. During the reporting period, the Group newly opened 462 concessionary counters with growth potential. Meanwhile, in order to enhance the sales efficiency of offline sales channels and stimulate the sales momentum of individual concessionary counters, the Group proactively closed a total of 958 concessionary counters which did not meet the Company's expectation during the reporting period, of which 650 were closed in the first half of 2019 and 308 were closed in the second half of 2019. Although the closure of concessionary counters reduced the Group's offline sales revenue, the Group is of the view that the closure of these concessionary counters will benefit the long-term and efficient development of offline sales channels.

As at 31 December 2019, sales from offline concessionary counters amounted to RMB1,362.5 million, representing a decrease of 7.9% as compared to that in the same period in 2018.

In addition, offline sales channels, as an important brand promotion window of the Company, continued to attract registered members to the Group. As at 31 December 2019, the Group has attracted approximately 25 million registered members.

The following map shows the geographical distribution of our concessionary counters in China as at 31 December 2019:

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

	Year ended 31 December	
	2019	2018
At the beginning of the year	**3,895**	3,690
Add: newly opened counters	**462**	851
Less: closed counters	**958**	646
Total concessionary counters	**3,399**	3,895

The table below sets forth the breakdown of number of concessionary counters within each sales region, each expressed as an absolute amount and as a percentage of the total number of concessionary counters, for the years ended 31 December 2018 and 2019 respectively:

	As at 31 December			
	2019	**%**	2018	%
Eastern China [(1)]	**1,070**	**31.5%**	1,226	31.5%
Southern China [(2)]	**667**	**19.6%**	826	21.2%
Northern China [(3)]	**692**	**20.4%**	806	20.7%
Southwest China [(4)]	**590**	**17.4%**	634	16.3%
Northwest China [(5)]	**380**	**11.2%**	403	10.3%
Total number of counters	**3,399**	**100.0%**	3,895	100.0%

Notes:

(1) Eastern China refers to Anhui, Jiangsu, Zhejiang, Henan, Hubei, Hunan and Jiangxi Provinces and Shanghai.

(2) Southern China refers to Fujian, Guangdong, Guangxi and Hainan Provinces.

(3) Northern China refers to Heilongjiang, Jilin, Liaoning, Hebei and Shandong Provinces and Beijing and Tianjin.

(4) Southwest China refers to Guizhou, Sichuan and Yunnan Provinces and Chongqing.

(5) Northwest China refers to Gansu, Ningxia, Qinghai, Shanxi and Shan'xi Provinces and Inner Mongolia and Xinjiang Autonomous Regions.

Online Channels

In 2019, the Group continued to expand the share of sales through online channels, including the e-commerce platform and the self-operated WeChat member store. As at 31 December 2019, the sales of online channels amounted to RMB421.6 million, representing an increase of 24.2% as compared with that in the same period of 2018. The proportion of online channel sales to total revenue increased to approximately 23.6% (2018: 18.7%).

In respect of the e-commerce platform, the Group continued to provide consumers with an enriched portfolio of health food on Tmall, JD.com, VIP.com and other platforms on the one hand, and enhance consumer experience with excellent services on the other hand. The Group formulated specific marketing plans according to different festivals and promotional events. During key promotion periods, such as "618" and "Singles' Day", the Group has achieved satisfactory performance, and has achieved the largest GMV for Alibaba's Singles' Day promotion among instant mixture products for three consecutive years.

As at 31 December 2019, sales on e-commerce platforms amounted to RMB322 million, representing an increase of 34.6% as compared to that in the same period of 2018.

In respect of the self-operated WeChat member store, the Group has been striving to develop it into a "healthy lifestyle platform" to continuously provide consumers with useful health consultation and products. As a result, the Group has accumulated a large number of WeChat followers who are active in WeChat member store and WeChat official accounts. As at 31 December 2019, the Group has attracted approximately 7.8 million followers (2018: 6.9 million). However, WeChat has adjusted the platform policy since the beginning of 2019, which limited the tools for the Group to access consumers. As a result, sales of our self-operated WeChat member store amounted to RMB99.6 million as at 31 December 2019, representing a decrease of 0.6% as compared to the same period in 2018.

Production Capacity

In view of the increasing demand for natural health food in China, the Group commenced the construction of a new manufacturing base in Nansha District, Guangzhou, China in March 2018. The new production base has a gross floor area of 60,000 sq.m.. The acceptance of main and ancillary works is expected to be completed by the end of 2020. Upon completion and full operation of the new manufacturing base, it is expected that the maximum production capacity of the Group will be increased to 40,000 tonnes per annum.

Optimization of Shareholding Structure

On 26 July 2019, PepsiCo, Inc., a renowned international food and beverage giant, purchased a total of 566,506,000 ordinary shares in the Company at HK$1.80 per share, representing approximately 25.84% of the total issued shares of the Company as at 25 July 2019, and became the second largest shareholder of the Company. The transaction is the first strategic investment made by PepsiCo, Inc. in China.

Outlook

Benefiting from the increasing purchasing power and health awareness of consumers in China, the Group is confident in the future. The Group will maintain and strengthen its leading market position as a well-known natural health food company in China, and therefore implement the following strategies:

- Continue to optimize the product mix, develop new core powder products and make every endeavour to develop new product categories with promising potential;

- Continue to strengthen existing sales channels and take the lead to explore new channels;

- Continue to strengthen the management of followers; and

- Focus on marketing and promotional activities to enhance brand competitiveness.

Financial Review

Revenue

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

	For the year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Offline channels	**1,362,482**	**76.4**	1,478,666	81.3
Online channels	**421,604**	**23.6**	339,400	18.7
E-commerce platforms	**321,987**	**18.0**	239,191	13.2
WeChat member store	**99,617**	**5.6**	100,209	5.5
Total	**1,784,086**	**100.0**	1,818,066	100.0

For the year ended 31 December 2019, absolute amounts of revenue generated from sales through its offline and online channels decreased as compared to those in the year ended 31 December 2018. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased from 81.3% in 2018 to 76.4% in 2019, while revenue generated from sales through online channels increased from 18.7% in 2018 to 23.6% in 2019.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 8.8% from RMB427.4 million for the year ended 31 December 2018 to RMB464.9 million for the year ended 31 December 2019, which was mainly attributable to the (i) increase in the purchase price of raw materials, which led to an increase in raw material costs, (ii) increase in overall labor costs, which directly led to an increase in direct labor costs, and (iii) increase in the packaging material costs, which was due to the increase in the online sales where additional packaging materials were applied as compared with the offline sales. Gross profit for the Group decreased from approximately RMB1,390.7 million for the year ended 31 December 2018 to approximately RMB1,319.2 million for the year ended 31 December 2019. The gross profit margin decreased from 76.5% for the year ended 31 December 2018 to 73.9% for the year ended 31 December 2019.

Other Income and Gains

Other income and gains of the Group increased by RMB0.9 million from approximately RMB22.0 million for the year ended 31 December 2018 to approximately RMB22.9 million for the year ended 31 December 2019, which was mainly attributable to (i) an increase in government grants, (ii) an increase in agency commission, and (iii) a decrease in interest income derived from financial assets at fair value through profit or loss, as the Company reduced its holding of financial products during 2019 and has a nil balance as of 31 December 2019.

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, transportation expenses and others. The selling and distribution expenses increased from approximately RMB1,070.9 million for the year ended 31 December 2018 to approximately RMB1,092.4 million for the year ended 31 December 2019, which was mainly attributable to (i) an increase in sales promotion expenses, which was mainly due to more advertising was placed for our brand promotion, (ii) an increase in the share based payment expenses, which was primarily due to the grant of the share option during the year, (iii) an increase in the commission expenses, and (iv) a decrease in the labor service expense of salesman, which was due to the downward adjustment in the number of directly operated concessionary counters in the offline channels, which resulted less hired sales personnel for the year ended 31 December 2019.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, office expenses, travel and communication expense, depreciation and amortisation and others. The administrative expenses decreased from approximately RMB133.2 million for the year ended 31 December 2018 to approximately RMB102.9 million for the year ended 31 December 2019. The decrease was mainly due to a decrease in the listing expenses, since all listing related expenses have been recorded for the year ended 31 December 2018.

Impairment Losses on Financial Assets

Impairment loss on financial assets increased to approximately RMB4.6 million for the year ended 31 December 2019 from approximately RMB3.2 million for the year ended 31 December 2018, which was mainly attributable to the impairment losses on financial assets as a result of an increased overdue trade and bills receivables balance.

Other Expenses

Other expenses of the Group decreased to approximately RMB1.3 million for the year ended 31 December 2019 from approximately RMB1.5 million for the year ended 31 December 2018 primarily due to the decrease in the loss on disposal of property, plant and equipment.

Finance Costs

For the year ended 31 December 2019, the Group's finance costs increased from approximately RMB0.4 million for the year ended 31 December 2018 to approximately RMB0.8 million primarily due to the adoption of HKFRS16, which resulted in an increase of lease finance costs.

Loss on Fair Value Changes of Convertible and Redeemable Preferred Shares

The loss on fair value changes of convertible and redeemable preferred shares was decreased from RMB75.7 million for the year ended 31 December 2018 to nil for the year ended 31 December 2019, which was primarily due to the full conversion of the convertible and redeemable preferred shares in 2018.

Profit before Tax

As a result of the foregoing, the profit before tax of the Group increased by 9.7% from approximately RMB127.6 million for the year ended 31 December 2018 to approximately RMB140.1 million for the year ended 31 December 2019.

Income Tax Expense

The Group's income tax expense decreased by 38.7% from RMB22.4 million for the year ended 31 December 2018 to RMB13.7 million for the year ended 31 December 2019, primarily due to the decrease of assessable profit, which was attributed to no listing expense incurred and no loss on fair value changes of convertible and redeemable preferred shares for the year ended 31 December 2019. For the same reason, the Group's effective tax rate decreased from 17.6% for the year ended 31 December 2018 to 9.8% for the year ended 31 December 2019. The Group's effective tax rates for both years were lower than the PRC statutory income tax rate of 25%. This lower effective tax rate is attributable to China's enterprise income tax exemption for income from preliminarily-processed agricultural products, which are applicable to certain of the Group's products.

Profit for the Year

Profit of the Group for the year ended 31 December 2019 increased by 20% from approximately RMB105.2 million for the year ended 31 December 2018 to approximately RMB126.3 million.

Financial Resources Review

Working Capital and Financial Resources

	As at 31 December 2019 (RMB million)	As at 31 December 2018 (RMB million)
Trade and bills receivables	**225.6**	239.6
Trade payables	**63.3**	72.1
Inventories	**114.0**	122.3
Trade receivables turnover days[(1)]	**48**	42
Trade payables turnover days[(2)]	**53**	61
Inventory turnover days[(3)]	**93**	87

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 of trade and bills receivables was primarily attributable to an decrease in the sales of the products, accompanied by an increase in provision for impairment of trade and bills receivables amounted to approximately RMB4.6 million, which was attributable to the increased overdue trade and bills receivables balance. The increase of trade receivables turnover days were mainly attributable to an extended credit period provided by the Group to certain customers.

The decrease of trade payables was primarily attributable to the early settlement of trade payables made by the Group to certain suppliers immediate before 31 December 2019. The decrease of trade payables turnover days were mainly attributable to shorter credit period granted by its suppliers.

The decrease of inventories was mainly attributable to an decrease in raw materials and finished goods in line with the sales decline as a result of the adjusted sales network and in anticipation of the decreasing sales volume during the festive season. The increase in inventory turnover days is primarily attributable to the revenue for the year ended 31 December 2019 did not meet the expectation.

Liquidity and Financial Resources

As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB558.0 million, representing a decrease of approximately 7.8% from RMB604.9 million as at 31 December 2018.

The Group's primary uses of cash were payment for suppliers and funding of working capital, daily operating expenses and construction of the new manufacturing facility in Nansha County, Guangzhou, loan repayment, share repurchase and dividend paid. The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 31 December 2019, the Group had no interest-bearing borrowings (31 December 2018: RMB70.1 million).

Net cash flows from operating activities were RMB171.6 million in 2019, as compared with net cash flows from operating activities of RMB133.7 million in 2018. Net cash used in from investing activities were RMB19.3 million in 2019, as compared with net cash flows from investing activities of RMB107.4 million in 2018. Net cash flows used in financing activities were RMB204.6 million in 2019, as compared with net cash used in financing activities of RMB350.8 million in 2018.

As at 31 December 2019, the Group had net current asset of RMB730.0 million, as compared with net current asset of RMB808.2 million as at 31 December 2018.

Capital Commitments

As at 31 December 2019, the Group had contracted but not provided for capital commitments of approximately RMB36.6 million, which were primarily relating to the purchase of property, plant and equipment to be used for the construction of the new manufacturing facility in Nansha County, Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB104.0 million as at 31 December 2018.

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 2019, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2019, the Group did not pledge any assets.

Gearing Ratio

As at 31 December 2019, the Group's gearing ratio (calculated by dividing total debt (including interest-bearing borrowing and lease liabilities) by total assets as of the end of each year) was approximately 1.6% (31 December 2018: 5.0%).

Employees and Remuneration Policy

As at 31 December 2019, the Group had 838 employees, as compared with 1,007 employees as at 31 December 2018. For the year ended 31 December 2019, costs of employees, excluding Directors' emoluments, amounted to a total of RMB201.5 million, representing an increase of approximately 5.5% from RMB190.9 million in 2018. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

The Group's emolument policies of the employees are formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company (the "**Remuneration Committee**"), who are authorised by the shareholders of the Company in the annual general meeting (the "**AGM**"), having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme will be set out in the "Directors' Report" section of the annual report of the Company for the year ended 31 December 2019.

OTHER INFORMATION

Annual General Meeting

The AGM will be held on 29 May 2020 (Friday). 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.

Dividend

In light of the payment of the 2019 Interim Dividend, the Directors do not recommend any payment of final dividend for the ended 31 December 2019.

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 25 May 2020 (Monday)
- Closure of register of members — 26 May 2020 (Tuesday) to 29 May 2020 (Friday)

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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than the latest time as stated above.

Corporate Governance

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

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

The Board is of the opinion that the Company has complied with the applicable provisions set out in the CG Code during the year ended 31 December 2019.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 December 2019.

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 Group is subject to environmental protection laws and regulations promulgated by the governments in the jurisdictions in which it operates its business. The Group has implemented stringent waste treatment procedures in its manufacturing facilities, and has procedures in place and designated special staff to treat and dispose of any hazardous waste.

Purchase, Sale and Redemption of Shares

During the year ended 31 December 2019, the Company bought back a total of 33,500,000 shares on the Stock Exchange. All the Shares bought back were subsequently cancelled by the Company. Details of those transactions are as follows:

Month of buy-back	Number of Shares bought back	Price per Share Highest	Price per Share Lowest	Aggregate price
		HKD	HKD	HKD
January	–	–	–	–
February	6,802,000	1.64	1.50	10,824,383.36
March	–	–	–	–
April	14,198,000	1.65	1.58	22,979,915.61
May	–	–	–	–
June	8,000,000	1.50	1.40	11,636,507.74
July	–	–	–	–
August	–	–	–	–
September	4,500,000	1.59	1.52	7,049,580.80
October	–	–	–	–
November	–	–	–	–
December	–	–	–	–

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2019.

Sufficiency of Public Float

The Company has maintained a sufficient public float from the 1 January 2019 and up to 31 December 2019.

Events after the Reporting Period

An outbreak of COVID-19, first reported in December 2019, has spread throughout the world, especially in China, the United States and Europe. On 11 March 2020, the World Health Organization declared the outbreak a global pandemic. Many businesses and social activities in China and other countries and regions have been disrupted, including our customers and manufacturers. This global outbreak has also caused market panics, which materially and negatively affected the global financial markets, such as the plunge of global stocks on major stock exchanges, including the Stock Exchange, in March 2020. The operation of Hubei Fuya Food Science and Technology Co., Ltd, which is a subsidiary of the Company located in Huanggang of Hubei Province, has been suspended after the statutory holidays for Chinese New Year as part of the Chinese government's countermeasures in containing the COVID-19 outbreak, and the operation was resumed on 14 March 2020, which is in compliance with local government's approval. For details of the suspension, please refer to the announcements of the Company dated 12 February 2020 and 25 February 2020. The Directors are currently assessing if the COVID-19 will have any material adverse impact on the business and results of operation of the Group as at the date these financial statements are authorised for issue. However, we cannot assure you that the disruption and potential slowdown of China's and the world's economy in 2020 and beyond may not adversely affect the Group's results of operations and financial conditions in future periods. Additionally, if the outbreak persists or escalates, our business operations and financial condition may also be adversely affected. The Directors will closely monitor the potential impacts, and inform the shareholders if the outbreak of COVID-19 will cause any material adverse impact on the business operations and financial conditions of the Group.

Save as disclosed in this announcement, there was no other significant event relevant to the business or financial performance of the Group that has come to the attention of the Directors since 31 December 2019.

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 2019, the breakdown of the intended use and the amount utilised as at 31 December 2019 were as follows:

	Budget	**Amount that had been utilized as at 31 December 2019** (Unit RMB million)	**Remaining balance as at 31 December 2019**
To further enhance our integrated distribution platform and optimize our channel mix	222.9	115.5	107.4
– To expand the online presence through further developing the technology infrastructure	22.3	18.0	4.3
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	12.0	10.3
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	22.0	22.6
– To expand into and introduce our existing and/or new products at various high-frequency "on-the-go" consumption channels	133.7	63.5	70.2
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	172.0	210.1
To use for general corporate purposes	31.8	31.8	–
Total	636.8	319.3	317.5

Note: The remaining proceeds are expected to be utilised during the period from 1 January 2020 to 31 December 2020, and is based on the Directors' best estimation of the future market conditions and thus subject to change.

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 on 12 December 2018, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code for the dealings in securities transactions by the Directors. All Directors have confirmed that they complied with the provisions of the Model Code during the year ended 31 December 2019.

Audit Committee

As at 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, the independent non-executive Directors. The chairman of the Audit Committee is Mr. Zhang Senquan. The annual results for the year ended 31 December 2019 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.

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 2019 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 Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.szwgmf.com). The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 30 March 2020

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.