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Natural Food International Holding Limited

五谷磨房食品國際控股有限公司

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

(Stock Code: 1837)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 (the “**Period**”), together with the comparative figures for the corresponding period in 2019 as below.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Period-on- period change
	2020	2019	
	RMB'000	RMB'000	Decrease
Revenue	610,330	917,520	(33)%
Gross profit	413,360	700,415	(41)%
(Loss)/profit before tax	(83,227)	119,050	(170)%
(Loss)/profit for the period attributable to owners of the Company	(52,341)	105,339	(150)%
(Losses)/earnings per share (expressed in RMB)			
Basic	(0.02)	0.05	(140)%
Diluted	(0.02)	0.05	(140)%

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

For the six months ended 30 June 2020

		For the six months ended	
		30 June	
	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	4	610,330	917,520
Cost of sales		<u>(196,970)</u>	<u>(217,105)</u>
Gross profit		413,360	700,415
Other income and gains	4	3,815	10,591
Selling and distribution expenses		(457,409)	(540,890)
Administrative expenses		(39,351)	(47,141)
Impairment losses on financial assets		(1,267)	(2,825)
Other expenses		(1,932)	(851)
Finance costs		<u>(443)</u>	<u>(249)</u>
(LOSS)/PROFIT BEFORE TAX	5	(83,227)	119,050
Income tax credit/(expense)	6	<u>30,886</u>	<u>(13,711)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(52,341)</u>	<u>105,339</u>
Attributable to:			
Owners of the parent		(52,341)	105,339
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>(52,341)</u>	<u>105,339</u>

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

For the six months ended 30 June 2020

		For the six months ended	
		30 June	
		2020	2019
Note		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(9,718)	(1,308)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		<u>13,368</u>	<u>2,004</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		<u>(48,691)</u>	<u>106,035</u>
Attributable to:			
Owners of the parent		(48,691)	106,035
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>(48,691)</u>	<u>106,035</u>
(Losses)/earnings per share (expressed in RMB)			
	8		
Basic		(0.02)	0.05
Diluted		<u>(0.02)</u>	<u>0.05</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

		30 June 2020	31 December 2019
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		305,873	299,772
Right-of-use assets		54,990	58,611
Intangible assets		760	1,045
Deferred tax assets		53,337	19,958
Total non-current assets		414,960	379,386
CURRENT ASSETS			
Inventories		78,076	113,957
Trade and bills receivables	9	154,607	225,583
Financial assets at fair value through profit or loss		55,000	–
Prepayments, deposits and other receivables		52,836	67,065
Amount due from a director		–	6
Amount due from a related party		11,060	10,802
Cash and cash equivalents		511,601	558,048
Restricted bank deposits		556	555
Total current assets		863,736	976,016
CURRENT LIABILITIES			
Trade payables	10	46,068	63,265
Contract liabilities		11,524	10,762
Other payables and accruals		120,300	133,346
Lease liabilities		4,566	5,565
Tax payable		28,705	32,915
Total current liabilities		211,163	245,969
NET CURRENT ASSETS		652,573	730,047
TOTAL ASSETS LESS CURRENT LIABILITIES		1,067,533	1,109,433

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2020

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred income	44	88
Deferred tax liabilities	3,324	3,324
Lease liabilities	<u>14,046</u>	<u>16,180</u>
Total non-current liabilities	<u>17,414</u>	<u>19,592</u>
Net assets	<u><u>1,050,119</u></u>	<u><u>1,089,841</u></u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	147	147
Treasury shares	–	(6,359)
Other reserves	<u>1,049,972</u>	<u>1,096,053</u>
Non-controlling interests	<u>–</u>	<u>–</u>
Total equity	<u><u>1,050,119</u></u>	<u><u>1,089,841</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

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 2020 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

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 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any covid-19-related rent concessions.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's 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 2020 and 2019.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<i>Revenue from contracts with customers</i>		
Sale of industrial products	610,330	917,520
	610,330	917,520
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	610,330	917,520
	610,330	917,520

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<u>Other income and gains</u>		
Government grants*	900	3,316
Bank interest income	774	879
Gain on change in fair value of financial assets through profit or loss	–	1,447
Income from financial assets at fair value through profit or loss	495	375
Commission income from provision of a sales platform	929	4,051
Others	717	523
	<u>3,815</u>	<u>10,591</u>

* 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. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold	196,970	217,105
Depreciation of property, plant and equipment	14,940	13,890
Depreciation of right-of-use assets	3,671	1,646
Short-term lease payments	983	3,778
Research and development costs*	1,945	4,275
Amortisation of intangible assets	285	301
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	76,784	79,329
Equity-settled share option expenses	7,521	5,297
Pension scheme contributions	4,564	9,589
Auditor's remuneration	377	377
Impairment of trade receivables**	1,267	2,825
Gain on change in fair value of financial assets through profit or loss	–	1,447
Income from financial assets measured at fair value through profit or loss	(495)	–
Finance costs	443	249
Bank interest income	(774)	(879)

* 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 receivables is included in “Impairment losses on 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 2019: 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 2019: 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 2019: 25%) on their taxable profits for the six months ended 30 June 2020 and 2019.

For the six months ended 30 June 2020 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 major components of income tax expenses in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2020	2019
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	2,493	11,131
Deferred tax	(33,379)	2,580
Total tax (credit)/charge for the period	<u>(30,886)</u>	<u>13,711</u>

7. INTERIM DIVIDENDS

The board of directors do not recommend any payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB39,604,000).

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

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

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

<u>Earnings/(losses)</u>	For the six months	
	ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(losses) per share calculation	<u>(52,341)</u>	<u>105,339</u>
<u>Shares</u>	For the six months	
	ended 30 June	
	2020	2019
Weighted average number of ordinary shares in issue used in the basic earnings/(losses) per share calculation	<u>2,188,514,000</u>	<u>2,210,638,137</u>
Effect of dilution – weighted average number of ordinary shares: Share options	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares in issue used in the diluted earnings/(losses) per share calculation	<u>2,188,514,000</u>	<u>2,210,638,137</u>

The share options had an anti-dilutive effect on the basic earnings/(losses) per share for the six months ended 30 June 2020 and 2019 and were ignored in calculation of diluted earnings/(losses) per share.

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	152,790	217,049
Bills receivable	13,734	19,184
Impairment	(11,917)	(10,650)
	154,607	225,583

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

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

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 1 month	113,591	179,945
1 to 2 months	14,225	28,109
2 to 3 months	6,404	4,796
Over 3 months	20,387	12,733
	154,607	225,583

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	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 1 month	36,156	47,100
1 to 2 months	5,221	11,772
2 to 3 months	2,375	2,567
Over 3 months	2,316	1,826
	46,068	63,265

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

In the first half of 2020, due to the rapid spread of the COVID-19 pandemic, economic activities and daily life of citizens across China have been severely affected. The central and local governments have successively implemented a number of epidemic prevention measures and restrictions on consumption places, which have had a significant impact on the normal production, shipments and business operations of the Group. Although the Group has taken a number of measures to actively respond, the above-mentioned factors has inevitably had an adverse impact on the Group's financial performance in the first half of 2020. For the six months ended 30 June 2020, the Group recorded a revenue of RMB610.3 million (six months ended 30 June 2019: RMB917.5 million) and a loss attributable to owners of the Company of RMB52.3 million (corresponding period of 2019: profit of RMB105.3 million).

In the face of a severe macroeconomic environment, the Group has adhered to long-term development, and actively promoted various operation activities and projects based on the established development strategy, focusing on accelerating the development of the online business, vigorously cultivating new categories of natural, healthy and convenient products and continuing to enhance the level of refined customer service.

Products

In the first half of 2020, the Group continued to focus on the concept of “homology of medicine and food” and natural health without additives for its product, continued to upgrade its core category of natural grain powder, established high-end fruit oatmeal as its second largest new category for future development, and launched several new products in line with market trends. At the same time, we continued to improve the formulation and upgrade the packaging for existing products to consolidate our core product categories' leading position in the market. As at 30 June 2020, we have launched a variety of natural grain powder products, high-end fruit oatmeals, healthy snacks and other products on all sales channels.

Natural grain powder belongs to our core product category and it is also the category most recognised by consumers of the Group. In the first half of 2020, we focused on product research and development around the concept of easy consumption, and to increase portability of the natural grain powder products. In March 2020, we launched Y10 Prebiotic High-Protein Prepared Cereal Powder (Y10益生元高蛋白冲调谷物粉) (“Y10”). This product has balanced nutrition, high-fibre and high-protein with a rich taste. In addition, it can be consumed either in cold or brewed up, which improves the convenience of eating and expands the product consumption scenarios. The Group also launched Y10 Portable “Xiaogu Cup (小穀杯)” to provide consumers with a more convenient user experience.



Y10 Prebiotic High-Protein Prepared Cereal Powder (Y10益生元高蛋白冲调谷物粉)



Y10 Portable “Xiaogu Cup (小穀杯)”

In addition, we also actively responded to consumer feedbacks to comprehensively upgrade natural grain powder products, and made it possible to eat the products either in cold or brew them up through scientific formula improvements, which has enhanced the convenience of eating the product and expanded our products' consumption scenarios. More products with upgraded formulas are expected to be launched in 2020.

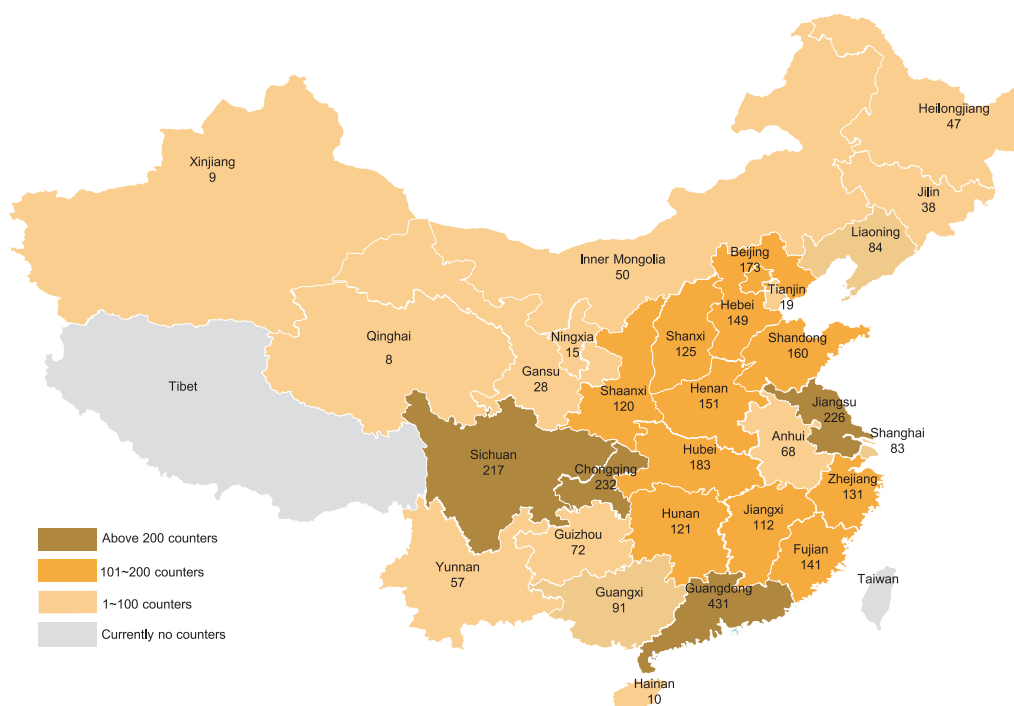
In addition, after continuous R&D upgrades and market testing, the Group broke the boundary of its existing product categories and extended its product category into to the category of cereal. In June 2020, we launched “Eat a Rainbow (吃個彩虹)”, a high-end fruit oatmeal sub-brand, and focused on its promotion through e-commerce channels. “Eat a Rainbow (吃個彩虹)” was jointly developed by the Company and the Dingxiang Experts Group (丁香專家團), who carefully matched a variety of categories and colours of ingredients based on the “Mediterranean Diet” and the Chinese Dietary Guidelines' diet theory of “Diverse Food, Grain-based” and provided consumers with daily enriched nutrition that balances deliciousness and health. During the 618 event, we used a wealth of marketing methods to continuously promote “Eat a Rainbow (吃個彩虹)” on e-commerce platforms and social media platforms, which attracted extensive attention for the brand and effectively increased the sales of the new product.



Sales Channels

The Group's sales channels include offline channels (concessionary counters in supermarkets) and online channels (e-commerce platforms and self-operated WeChat member stores). For the six months ended 30 June 2020, the revenue generated from our offline channels accounted for 67.4% and the revenue generated from our online channels accounted for 32.6% of our total revenue, respectively.

In the first half of 2020, we newly opened 125 concessionary counters. However, in view of the impact of the COVID-19 pandemic, we took the initiative to close 180 concessionary counters to control costs and improve operational efficiency. As at 30 June 2020, we had 3,344 concessionary counters in 289 cities across the country. The following map shows the geographic distribution of the concessionary counters across China as at 30 June 2020:



Offline Sales Network

The Group's offline channels currently comprise concessionary counters in supermarkets. During the Period, as a result of the Group's proactive adjustment of its business strategies and evaluation of the business operations and performance of the existing concessionary counters, the Group newly opened 125 concessionary counters and closed 180 concessionary counters due to the aforementioned reasons.

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

	Six months ended 30 June 2020	Year ended 31 December 2019
At the beginning of the year	3,399	3,895
Add: newly opened counters	125	462
Less: closed counters	<u>180</u>	<u>958</u>
Total concessionary counters	<u>3,344</u>	<u>3,399</u>

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 six months ended 30 June 2020 and year ended 31 December 2019, respectively:

	As at 30 June 2020		As at 31 December 2019	
		%		%
Eastern China ⁽¹⁾	1,075	32.1%	1,070	31.5%
Southern China ⁽²⁾	666	20.0%	667	19.5%
Northern China ⁽³⁾	670	20.0%	692	20.4%
Southwest China ⁽⁴⁾	578	17.3%	590	17.4%
Northwest China ⁽⁵⁾	<u>355</u>	<u>10.6%</u>	<u>380</u>	<u>11.2%</u>
Total number of counters	<u>3,344</u>	<u>100.0%</u>	<u>3,399</u>	<u>100.0%</u>

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 Shaanxi Provinces and Inner Mongolia and Xinjiang Autonomous Regions.

During the six months ended 30 June 2020, the Company has started to upgrade the concessionary counters to improve consumers' shopping experience.



Online Channels

The expansion and cultivation of online channels (especially e-commerce platforms) has always been one of the most important sales strategies of the Group. As the first brand of natural powder on Tmall platform, we have maintained a long-term good and healthy relationship with the platform. At the same time, we used the brand as the fulcrum to leverage abundant platform resources to promote our products more efficiently. In addition, we actively participated in the “e-commerce live broadcast” activities, leveraged various promotion themes and promotion nodes, and cooperated with well-known bloggers on Tmall to promote our products. In addition, we actively interacted with consumers and answered their questions online through the brand's live broadcasts to enhance consumers' online shopping experience. Thanks to this, our e-commerce platform recorded an approximately 23% growth in the first half of 2020.

After going through several stages of development, the WeChat platform has returned to its important role of providing services to brands this year and has become a key channel for us to achieve efficient consumer management. Thanks to the Company's experience with a mature mode of consumer operation and management and a database of rich consumer information, we used new platform tools to provide consumers with various kinds of information related to the brand and the healthy lifestyle covering rich themes, and strived to provide consumers with more additional value to the brand.

The Group also continued to increase the resources devoted to its self-operated WeChat member store by improving the membership services and interactions with its fans through its WeChat member store to further enhance customer loyalty and encourage customers to make more purchases. As at 30 June 2020, the Group had approximately 9 million followers on its WeChat official account.

Production Capacity

In view of the increasing demand of natural and healthy food in China, the Group has started the planning of construction of its new manufacturing facility in Nansha, Guangzhou, China in March 2018, and has commenced the construction in January 2019. The facility has a designed production capacity of approximately 30,000 tons. It has a total gross floor area of approximately 60,000 square meters. The main facility and its ancillary works are expected to be delivered and checked by the end of 2020, and is expected to commence production in September 2021.

Brand Building

In the first half of 2020, we strengthened our brand building around the brand images of "Natural and Healthy" and "Young and Fashionable".

In respect of our core category of natural grain powder, we have combined the health attribute and convenience attribute of the products, and conducted a series of "strong recommendation" marketing activities on social platforms with Xiaohongshu (小紅書) as our main battleground. Through content marketing such as theme promotion, celebrity, KOL, KOC interaction, and etc., the popularity and discussion of related products have significantly increased on the Internet.

In respect of high-end fruit oatmeal, we launched “Eat a Rainbow (吃個彩虹)”, a high-end fruit oatmeal sub-brand, on 1 June 2020, and hired well-known actress Dilraba as our brand ambassador to promote the brand proposition of “colourful and rich in content, eat a rainbow (有顏有料、吃個彩虹)”. Through brand and content displays on multiple social media platforms such as Weibo (微博), Douyin (抖音) and Xiaohongshu (小紅書), more than 700 million impressions have been triggered over the whole network, and the share of voice and sales volume of the major recommended brand have increased.

Outlook

The Company has been cultivating the field of natural and healthy non-additive foods for many years. At the beginning of this year, the Company put forward the strategy of “steady and innovative business operation”, that is, the Company will focus on seeking new models and opportunities while consolidating its existing business. Although the Group’s operations are gradually recovering and improving, the epidemic is still continuing and it is uncertain when it will be under full control. Its long-term negative impact on the macro economy and residents’ lives is difficult to estimate, leading to uncertainties about the degree of recovery of the Group’s operations and the time required. However, benefited from the increasing purchasing power and health awareness of consumers in China, the Group is confident in the future market. The Group will maintain and strengthen its leading market position as a well-known natural health food company in China, and is expected to implement the following strategies:

- Continue to optimize the product portfolio, develop new core powder products and make every endeavour to develop new product categories with promising potential;
- Continue to accelerate the development of online channels and take the lead to explore new channels;
- Continue to strengthen the management of followers; and
- Focus on marketing and promoting 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 store. The following table sets out a breakdown of the Group's revenue by sales channel, each expressed in the absolute amount and as a percentage to its total revenue, for the periods indicate:

	For the six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Offline channels	411,275	67.4	734,419	80.0
Online channels	199,055	32.6	183,101	20.0
WeChat member store	32,197	5.3	47,470	5.2
E-commerce platforms	166,858	27.3	135,631	14.8
Total	610,330	100.0	917,520	100.0

For the six months ended 30 June 2020, absolute amounts of revenue generated from sales through its offline and online channels decreased as compared to the corresponding period in 2019. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased to 67.4% for the Period from 80% for the corresponding period in 2019, while revenue generated from sales through online channels increased from 20% for the six months ended 30 June 2019 to 32.6% for the Period. The decrease in revenue was attributed to the decrease in the revenue generated from offline channels, mitigated by the increase in the revenue generated from online channels. The government's guidance on the Covid-19 pandemic prevention and control, residents in China were required to follow the social-distancing policy and self-quarantine policy, resulting in a reduced sales through the offline channels. Revenue generated from sales through online channels was increased, which was primarily due to the increased demands for online shopping delivery during the Period.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales decreased by approximately 9.3% from RMB217.1 million for the six months ended 30 June 2019 to RMB197 million for the Period, which was mainly attributable to (1) a decrease in cost for raw materials, (2) a decrease in cost for packaging and other materials, and (3) offset by an increase in the changes in inventories of finished goods and work in progress. Gross profit for the Group decreased from approximately RMB700.4 million for the six months ended 30 June 2019 to approximately RMB413.4 million for the Period. The gross profit margin decreased from 76.3% for the six months ended 30 June 2019 to 67.7% for the Period, primarily due to an increased discount provided to our customers for the Period.

Other Income and Gains

Other income and gains of the Group decreased by RMB6.8 million from approximately RMB10.6 million for the six months ended 30 June 2019 to approximately RMB3.8 million for the Period, which was mainly attributable to (i) decrease in agency commission income as a result of decreased revenue generated from the Group's wechat member store for selling the third-party brand products, (ii) decrease in gain on change in fair value of financial assets through profit or loss and (iii) decrease in government grants.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of advertising expenses, commission expense, labour service expense of salesmen, salary and employee benefit expenses, sales promotion expenses, transportation expenses and others. The selling and distribution expenses decreased from approximately RMB540.9 million for the six months ended 30 June 2019 to approximately RMB457.4 million for the Period, which was mainly attributable to (i) decrease in commission expenses was due to the decrease in the revenue, which was mainly caused by the Covid-19 pandemic, (ii) decrease in labour service expense of salesman of offline channels as a result of the decrease in the number of concessionary counters and salesman staff, and (iii) increase in the advertising expenses as a result of the promotion of key product (e.g. "Eat a Rainbow (吃個彩虹)") on online channel.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, intermediary service fee, depreciation and amortization, research and development expenses, losses arisen from the suspension of production, and share based payment expenses and others. The administrative expenses decreased from approximately RMB47.1 million for the six months ended 30 June 2019 to approximately RMB39.4 million for the Period. The decrease was mainly due to (i) decrease in salary and employee benefit expenses as a result of the decrease in the number of administrative staff, (ii) decrease in other taxes and fees as a result of the decrease in the revenue for the period, (iii) increase in the share based payment expenses as a result of the share option was granted on 12 June 2019.

Impairment Losses on Financial Assets

Impairment losses on financial assets of the Group decreased to approximately RMB1.3 million for the Period from approximately RMB2.8 million for the six months ended 30 June 2019 due to the decreased overdue trade and bills receivables balance.

Other Expenses

The other expenses of the Group increased by approximately RMB1.0 million from approximately RMB0.9 million for the six months ended 30 June 2019 to approximately RMB1.9 million for the Period, which was mainly attributable to the donations to the local hospitals and Red Cross of Hubei Province during the period of Covid-19 pandemic.

Finance Costs

The Group's finance costs increased by approximately 77.9% from approximately RMB0.2 million for the six months ended 30 June 2019 to approximately RMB0.4 million for the Period, which was primarily due to the increase in the interest expenses on lease liabilities.

(Loss)/Profit Before Tax

As a result of the foregoing, the Group recorded a profit before tax of approximately RMB119.1 million for the six months ended 30 June 2019, as compared to a loss before tax of approximately RMB83.2 million for the Period.

Income Tax Credit/(Expense)

The Group's income tax expense was 13.7 million for the six month ended 30 June 2019, while the income tax credit was 30.9 million for the Period, it was mainly attributable to (i) decrease in current income tax expense as a result of the decrease in the assessable profit for the Period, (ii) increase in the deferred tax income as a result of the losses incurred by some subsidiaries in the Group. The Group's effective tax rates for the Period was different from the PRC statutory income tax rate of 25%. The difference was mainly attributable to the above-mentioned recognition of the deferred tax assets and income derived from preliminary agricultural proceed products which was not subject to income tax in China.

(Loss)/Profit for the Period

The Group recorded a loss of approximately RMB52.3 million for the Period, as compared to a profit of the Group of approximately RMB105.3 million for the six months ended 30 June 2019.

Financial Resources Review

Working Capital and Financial Resources

	As at 30 June 2020 (RMB million)	As at 31 December 2019 (RMB million)
Trade and bills receivables	154.6	225.6
Trade payables	46.1	63.3
Inventories	78.1	114.0
Trade receivables turnover days ⁽¹⁾	56	48
Trade payables turnover days ⁽²⁾	51	53
Inventory turnover days ⁽³⁾	89	93

Notes:

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

The decrease of trade and bills receivables was primarily attributable to the decrease in the sales of the Group's products. The increase of trade receivables turnover days was mainly attributable to the provision of longer credit term to the newly-opened small-size supermarkets.

The decrease of trade payables was mainly attributable to the decrease in the purchase of raw materials and packaging materials used for the production, which was caused by the declined sales for the Period. The trade payables turnover days remained stable.

The decrease of inventories was mainly attributable to the clearance of unsold inventories, and a decrease in raw materials and finished goods was in line with the declined sales during the Period. The decrease in inventory turnover days is primarily attributable to the implementation of the rigid inventory control measures.

Liquidity and Financial Resources

As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB511.6 million, representing a decrease of approximately 8.3% from RMB558 million as at 31 December 2019.

The Group's primary uses of cash were payment for suppliers and funding of working capital, daily operating expenses, construction of the new manufacturing facility in Nansha County, Guangzhou and purchase of financial assets (i.e. wealth management products). The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 30 June 2020, the Group did not have any interest-bearing borrowing (31 December 2019: Nil).

As at 30 June 2020, the Group had net current asset of RMB652.6 million, as compared with net current asset of RMB730 million as at 31 December 2019.

Currency Exposure and Management

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

Contingent Liabilities

As at 30 June 2020, the Group had no contingent liabilities.

Pledge of Assets

As at 30 June 2020, the Group did not pledge any assets.

Gearing Ratio

As at 30 June 2020, the Group's gearing ratio (calculated by dividing total debt by total assets as of the end of each period) was approximately 1.5% (31 December 2019: 1.6%).

Employees and Remuneration Policy

As at 30 June 2020, the Group had 802 employees, as compared with 838 employees as at 31 December 2019. For the Period, costs of employees, excluding Directors' emoluments, amounted to a total of RMB88.9 million, representing a decrease of approximately 5.7% from RMB94.2 million during the corresponding period in 2019. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. As at 31 December 2019, 67,043,349 share options were outstanding. During the Period, 2,441,520 share options had cancelled and no share options had been exercised. As at 30 June 2020, 64,601,829 share options were outstanding.

Significant Acquisition, Disposal or Investment

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

OTHER INFORMATION

Interim Dividend

The Board do not recommend any payment of interim dividend for the period ended 30 June 2020.

Corporate Governance

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

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

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

Purchase, Sale and Redemption of Shares

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

Events after the Period

There was no significant subsequent event relevant to the business or financial performance of the Group that come to the attention of the Directors since 30 June 2020.

Use of Proceeds from the Listing

Net proceeds from the global offering of the Company's offer Shares amounted to approximately HK\$636.8 million (after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the Global Offering). The following table sets forth the use of proceeds by the Group as at 30 June 2020:

	Budget	Amount that had been utilized as at 30 June 2020	Remaining balance as at 30 June 2020 (HK\$ million)
To further enhance the integrated distribution platform and optimise our channel mix	222.9	163.7	59.2
– To expand the online presence through further developing the technology infrastructure	22.3	22.3	–
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	12.5	9.8
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	25.6	19
– To expand into and introduce our existing and/or new products at various high-frequency “on-the-go” consumption channels	133.7	103.3	30.4
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	192.1	190
To use for general corporate purposes	31.8	31.8	–
Total	636.8	387.6	249.2

As at 30 June 2020, the Group holds the unutilised net proceeds as deposit with creditworthy banks with no recent history of default. There has been no change to the intended use of net proceeds as previously disclosed in the prospectus of the Company dated 29 November 2018. The proceeds were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the prospectus of the Company.

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange on 12 December 2018, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code for the dealings in securities transactions by the Directors. All Directors have confirmed that they complied with the provisions of the Model Code throughout the Period.

Audit Committee

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

Review of Preliminary Announcement

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

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.szwgmf.com>). The interim report of the Company for the six months ended 30 June 2020 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, 28 August 2020

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.