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 2021

The board (the "**Board**") of directors (the "**Directors**") of Natural Food International Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the consolidated results of the Group for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020 as below.

FINANCIAL HIGHLIGHTS

	Year Ended 2021 RMB'000	Year Ended 2020 RMB'000	Year-on-year Change Increase
Revenue	1,610,322	1,438,547	171,775
Gross profit	1,138,446	1,006,551	131,895
Profit/(loss) before tax	113,682	(53,060)	166,742
Profit/(loss) for the year attributable to owners of the Company	86,531	(14,452)	100,983
Earnings/(loss) per share (expressed in RMB)			
Basis	0.04	(0.01)	N/A
Diluted	0.04	(0.01)	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	4	**1,610,322**	1,438,547
Cost of sales		**(471,876)**	(431,996)
Gross profit		**1,138,446**	1,006,551
Other income and gains	4	**12,266**	9,918
Selling and distribution expenses		**(954,443)**	(967,229)
Administrative expenses		**(81,561)**	(81,020)
Reversal of impairment/(impairment losses) on financial assets, net		**3,497**	(9,595)
Other expenses		**(3,702)**	(10,713)
Finance costs		**(821)**	(972)
PROFIT/(LOSS) BEFORE TAX	5	**113,682**	(53,060)
Income tax (expense)/credit	6	**(27,151)**	38,608
PROFIT/(LOSS) FOR THE YEAR		**86,531**	(14,452)
Attributable to:			
Owners of the parent		**86,531**	(14,452)
Non-controlling interests		**–**	–
		86,531	(14,452)

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

For the year ended 31 December 2021

	Note	**2021** **RMB'000**	2020 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		**13,790**	29,307
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**(19,141)**	(39,912)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**81,180**	(25,057)
Attributable to:			
Owners of the parent		**81,180**	(25,057)
Non-controlling interests		**–**	–
		81,180	(25,057)
Earnings/(Loss) per share (expressed in RMB)			
Basic		**0.04**	(0.01)
Diluted		**0.04**	(0.01)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**313,704**	306,099
Right-of-use assets		**51,206**	54,469
Intangible assets		**338**	598
Deferred tax assets		**67,300**	65,642
Total non-current assets		**432,548**	426,808
CURRENT ASSETS			
Inventories		**81,349**	92,022
Trade and bills receivables	9	**176,591**	161,934
Financial assets at fair value through profit or loss		**–**	20,750
Prepayments, other receivables and other assets		**49,511**	41,422
Amounts due from related parties		**11,141**	10,448
Cash and cash equivalents		**646,015**	564,175
Restricted bank deposits		**888**	557
Total current assets		**965,495**	891,308
CURRENT LIABILITIES			
Trade payables	10	**59,732**	52,618
Contract liabilities		**15,874**	12,330
Other payables and accruals		**127,735**	124,212
Lease liabilities		**6,200**	5,389
Amounts due to related parties		**261**	–
Tax payable		**45,772**	31,251
Total current liabilities		**255,574**	225,800
NET CURRENT ASSETS		**709,921**	665,508
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,142,469**	1,092,316

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

	2021	2020
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Deferred income	**156**	500
Deferred tax liabilities	**7,524**	3,324
Lease liabilities	**10,550**	13,004
Total non-current liabilities	**18,230**	16,828
Net assets	**1,124,239**	1,075,488
EQUITY		
Equity attributable to owners of the parent		
Share capital	**147**	147
Other reserves	**1,124,092**	1,075,341
Non-controlling interests	**–**	–
Total equity	**1,124,239**	1,075,488

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	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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

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

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

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

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

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 2020 and 2021.

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

	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods	**1,610,322**	1,438,547

	2021	2020
	RMB'000	RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**1,610,322**	1,438,547

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

	2021	2020
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	**12,330**	10,762

	2021	2020
	RMB'000	RMB'000
Other income and gains		
Government grants*	**2,000**	3,309
Bank interest income	**4,213**	1,237
Income from financial assets at fair value through profit or loss	**3,485**	2,648
Commission income from provision of a sales platform	**1,779**	1,640
Others	**789**	1,084
	12,266	9,918

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

5. PROFIT/(LOSS) BEFORE TAX

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

	2021	2020
	RMB'000	RMB'000
Cost of inventories sold	**471,876**	431,996
Depreciation of property, plant and equipment	**23,474**	30,205
Depreciation of right-of-use assets	**7,338**	7,501
Lease payments not included in the measurement of lease liabilities	**4,050**	3,096
Research and development costs*	**8,864**	3,872
Amortisation of intangible assets	**260**	447
Employee benefit expense (excluding directors' and chief executive's remuneration and research and development costs)		
Wages and salaries	**134,560**	149,981
Equity-settled share option expenses	**1,587**	8,554
Pension scheme contributions	**11,836**	9,926
Auditor's remuneration	**1,858**	1,840
(Reversal of impairment)/impairment losses on financial assets, net	**(3,497)**	9,595
Loss on disposal of items of property, plant and equipment**	**3,058**	5,580
Finance costs	**821**	972
Bank interest income	**(4,213)**	(1,237)

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

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

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

6. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group was not subject to any income tax in the British Virgin Islands and the Cayman Islands during the years ended 31 December 2020 and 2021.

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 2020 and 2021.

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 2020 and 2021 was 25% on the taxable profits.

During the years ended 31 December 2020 and 2021, 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 2020 and 2021 are analysed as follows:

	2021	2020
	RMB'000	RMB'000
Current – PRC		
Charge for the year	**22,016**	7,076
Underprovision in prior years	**2,593**	–
Deferred	**2,542**	(45,684)
Total tax charge/(credit) for the year	**27,151**	(38,608)

7. DIVIDENDS

	2021	2020
	RMB'000	RMB'000
Interim – RMB1.6 cent (2020:Nil) per ordinary share	**35,016**	–

The board of directors did not recommend proposing final dividend for the year ended 31 December 2021.

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

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

	2021	2020
	RMB'000	RMB'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	**86,531**	(14,452)

	2021	2020
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings/(loss) per share calculation	**2,188,514,000**	2,188,514,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	–
Weighted average number of ordinary shares in issue used in the diluted earnings/(loss) per share calculation	**2,188,514,000***	2,188,514,000*

* No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2020 and 2021 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

9. TRADE AND BILLS RECEIVABLES

	2021	2020
	RMB'000	RMB'000
Trade receivables	**174,007**	165,840
Bills receivable	**7,356**	4,671
Impairment	**(4,773)**	(8,577)
	176,591	161,934

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:

	2021	2020
	RMB'000	RMB'000
Within 1 month	**165,817**	149,620
1 to 2 months	**4,433**	2,053
2 to 3 months	**895**	800
Over 3 months	**5,446**	9,461
	176,591	161,934

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

	2021	2020
	RMB'000	RMB'000
At beginning of year	**8,577**	10,650
(Reversal of impairment)/impairment losses, net	**(3,497)**	6,367
Amount written off as uncollectible	**(307)**	(8,440)
At end of year	**4,773**	8,577

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:

	2021	2020
	RMB'000	RMB'000
Within 1 month	**40,834**	40,285
1 to 2 months	**13,601**	8,101
2 to 3 months	**1,939**	2,010
Over 3 months	**3,358**	2,222
	59,732	52,618

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

In 2021, the economic environment was extremely complex, and the recurrence of the pandemic exceeded expectations, causing disruption to the continuous economic recovery. Against this backdrop, China's fast-moving consumer goods market remained active, demonstrating the resilience of the consumer market.

Facing the challenges of an objective environment, in 2021, the Group has steadily developed its e-commerce business in accordance with the medium and long-term development strategy plan, actively promoted the recovery of the offline concessionary counters business, actively explored new opportunities for the offline channel business, and strengthened brand building at the same time, so as to provide continuous momentum for the Group's long-term business development.

In 2021, the operating results of the Group continued to improve, with revenue increasing by 11.9% year-on-year to RMB1,610.3 million; net profit recorded a turnaround of RMB86.5 million (corresponding period in 2020: loss of RMB14.5 million).

Sales Channels

In the rapidly changing retail trade environment under the COVID-19 pandemic, the Group actively explored other offline sales models while vigorously developing e-commerce business and actively promoting the recovery of offline concessionary counters business. For the twelve months ended 31 December 2021, the Group's revenue contribution from online channels increased by 7.8% to 36.5% as compared to the corresponding period in 2020, and revenue generated from offline channels accounted for 63.5% (the corresponding period in 2020: 71.3%).

E-Commerce Channels

In 2021, the Group's e-commerce channel realised a total revenue of RMB587.4 million, representing an increase of 42.1% over the same period last year.

The expansion and cultivation of online channels represented by traditional e-commerce platforms have always been one of the most important sales strategies of the Group. As the first brand in the natural grain powder category on the Tmall platform, we have maintained a long-term good and healthy relationship with the platform. At the same time, we used the brand as the fulcrum to leverage abundant platform resources to promote our products more efficiently. In 2021, we achieved excellent performance in key marketing festivals such as "6.18", "11.11" and "12.12" Festivals. Our best-selling e-commerce product "Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)" realised an annual GMV of approximately RMB290 million, maintaining its position as the No. 1 natural grain powder product in the entire network. In addition, the new sesame pills (芝麻丸) also performed well, realising an annual GMV of approximately RMB130 million, showing the explosive potential of the product.

With remarkable results achieved on the traditional e-commerce platform, we acutely captured the opportunities arising from the rapid development of emerging social e-commerce platforms, including Douyin Store and Kuaishou (快手). Through various forms of video/graphics with rich contents, as well as live-stream sales, we utilised the extensive appeal of many well-known artists, key opinion leaders (KOLs) and key opinion consumers (KOCs) to trigger extensive consumer discussion on the "Wugu Mofang (五谷磨房)" brand and products, to continuously consolidate and deepen the health attributes of our "Grain Nutrition Expert Brand (谷物營養專家品牌)" and enhance the brand's favourability and recognition. As a result, Wugu Mofang achieved sales revenue of approximately RMB130 million through social e-commerce channels, including Douyin Store and Kuaishou (快手).

While recording satisfactory sales results, the Group successfully replicated its experience in e-commerce operation to social e-commerce. The Wugu Mofang Douyin Store was selected as one of the five major cases of "11.11" Festival food brand operation, and its operating results were shared. During the "11.11" Festival, the Group's Douyin Store topped Douyin's traditional nutritional supplements list for seven consecutive days, and the brand's accumulative exposure during the event exceeded 335 million times.

Offline Channels

The Group's offline channels mainly include the direct-operated concessionary counters business in supermarkets and the channel business based on the distribution model.

Concessionary Counters Business

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

The offline commerce and retail environment then showed a considerable performance difference under the continuous impact of the COVID-19 pandemic. In view of this, the Group timely adopted the "*streamlining + efficiency improvement*" strategy to reduce the number of counters while increasing the unit yield of counters. After the continuous operation, the performance of the counters business has become stable. As of 31 December 2021, the Group had 2,464 concessionary counters nationwide, representing a year-on-year decrease of 22.3%. Benefitting from the effective implementation of the "*streamlining + efficiency improvement*" strategy, our concessionary counters has recorded a sales revenue of RMB1,022.9 million, representing a slight year-on-year decrease of 0.2%.

Meanwhile, we have also observed that the COVID-19 pandemic has left a far-reaching impact on the offline business environment, especially the significant trend of declining consumer traffic in hypermarkets. Given the recent resurgence of the COVID-19 pandemic in certain regions in Mainland China, we believe that the impact of the pandemic on the offline business environment is uncertain. Still, the Group will continue to operate offline counters from a long-term perspective. At the same time, the Group will extend the life cycle of consumers by effective membership management mechanism, in order to increase their consumption and repeated purchase rate.

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

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

	Twelve months ended 31 December 2021	**Twelve months ended 31 December 2020**
At the beginning of the year	3,171	3,399
Add: newly opened counters	144	341
Less: closed counters	(851)	(569)
Total concessionary counters	2,464	3,171

Channel Business

Since the end of 2020, the Group has also actively explored opportunities in other channel businesses, including the distribution model. After initial preparation for several months, the Group has substantially completed the team building and arrangement for channel products, in the second half of 2021, it actively promoted sales in key terminals. As of 31 December 2021, the Group achieved a sales revenue of RMB23.3 million from channel business, achieving zero breakthroughs.

Products

"Homology of medicine and food (藥食同源)" and "natural, healthy and without additives (天然健康無添加)" is the product concepts the Group has been adhered to since its incorporation. Through the in-depth development of advantageous raw materials, the Group has broken the category barriers and expanded the consumption scenarios, providing consumers with a wide range of products, including cereal nutrition powder, new Chinese nutritional products, dietary and healthy snacks.

In 2021, we took the lead in launching the black nutrition expert brand "Black Nutrition (黑之養)" on the e-commerce channels, which quickly attracted customers with black food's wide recognition, consensus and popularity in the traditional Chinese food culture, coupled with distinctive packaging and publicity. In the future, we will continue to focus on building the "Black Nutrition (黑之養)" brand, and introduce the brand to other channels in addition to e-commerce channels, to provide consumers with black grain nutrition food including "Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)", "Black Sesame Pills (黑芝麻丸)" and "Black Soy Pulp Powder (黑豆漿粉).

BRAND BUILDING

In 2021, reshaping the brand mentality of "Wugu Mofang"（五谷磨房）among consumers, and building a brand moat was an important matter for the Group in brand work.

The Group carried out content and diversified communication with all social/e-commerce channels, including Taobao Station（淘寶站）, Xiaohongshu（小紅書）and Weibo（微博）, to change consumers' previous blurred impression of the brand and establish a clearer brand image of "good ingredients, no additives and more professional（好食材、無添加、更專業）".

In addition, the Group also actively carried out in-depth cooperation with well-known experts in nutrition and health industries to build a brand moat with professionalism and craftsmanship.

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

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

OUTLOOK

Looking ahead to 2022, despite the ongoing recovery of macroeconomic indicators, the effects of the COVID-19 pandemic will remain. In particular, the offline department store operation is disrupted, and consumer traffic has not yet returned to the level before the outbreak of the COVID-19 pandemic. In addition, the COVID-19 pandemic has fueled the reformation of the entire consumption industry, including the food and beverage sector as well as the retail sector. In terms of channels, retailers have raced to increase their investments in online businesses and O2O businesses, so as to cope with the changing consumption habits of consumers. In terms of products, there are increasingly more sub-categories being penetrated. Thus, a large number of potential products will be launched. Against such background, the Group has contemplated its own current advantages, the existing challenges and the breakthroughs it should seek for, and formulated its medium- and long-term development strategy of "consolidate the main business, expand channels and diversity products (夯實主幹、拓展渠道、拓品類)" to resolutely continue to consolidate the cereal nutrition powder as our core advantageous category and target offline concessionary counters as our fundamental development focus while acutely seizing and actively expanding new channels and opportunities of new categories, to provide continuous momentum for the long-term development of the Company.

Financial Review

Revenue

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

	For the year ended 31 December			
	2021		2020	
	RMB'000	**%**	RMB'000	%
Offline channels	**1,022,877**	**63.5**	1,025,060	71.3
Offline concessionary counter	**997,967**	**62.0**	1,024,298	71.2
New channel business	**24,910**	**1.5**	762	0.1
Online channels	**587,445**	**36.5**	413,487	28.7
E-commerce platforms	**587,445**	**36.5**	413,487	28.7
Total	**1,610,322**	**100.0**	1,438,547	100.0

For the year ended 31 December 2021, the absolute amount of revenue generated from sales through its offline and online channels increased as compared to the year ended 30 December 2020, which was attributed to the increase in the revenue generated from online channels mitigated by the decrease in the revenue generated from offline channels.

The decrease in sales through offline channels was mainly attributable to the adoption of a "streamlining + efficiency improvement" strategy for offline concessionary counters, which reduced the number of offline concessionary counters while increasing the average revenue of each offline concessionary counters.

Revenue generated from sales through online channels increased, which was mainly due to (i) the successful promotion of the black nutrition expert brand "Black Nutrition (黑之養)" and the star product named "Walnut Sesame Black Bean Powder(核桃芝麻黑豆粉)"; (ii) in addition to maintain the operation of the existing online channels, the e-commerce team also established and operated online stores (e.g. Douyin stores) on new social e-commerce platforms, it allowed the Group to reach a wider customer base and significantly increased the revenue generated from online channels.

As a percentage to the total revenue, revenues generated from sales through the offline channels decreased from 71.3% in 2020 to 63.5% in 2021, while revenue generated from sales through the online channels increased from 28.7% in 2020 to 36.5% in 2021.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 9.2% from RMB432 million for the year ended 31 December 2020 to RMB471.9 million for the year ended 31 December 2021, which was mainly attributable to (i) an increase in sales volume and production volume that led to the increase in raw material cost, packing and other material cost, direct labor cost and manufacturing cost; (ii) a decrease in the changes in inventories of finished foods and work-in-progress. Gross profit for the Group increased from approximately RMB1,006.6 million for the year ended 31 December 2020 to approximately RMB1,138.4 million for the year ended 31 December 2021. The gross profit margin increased from 70% for the year ended 31 December 2020 to 70.7% for the year ended 31 December 2021, due to the increase in percentage of revenue derived from products with higher gross profit margin.

Other Income and Gains

Other income and gains of the Group increased by RMB2.3 million from approximately RMB9.9 million for the year ended 31 December 2020 to approximately RMB12.3 million for the year ended 31 December 2021, which was mainly attributable to (i) a decrease in government grants; (ii) an increase in bank interest income; and (iii) an increase in interest income from financial assets measured at fair value through profit or loss, because of the increase in average balance of the financial assets measured at fair value through profit or loss held by the Group.

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 decreased from approximately RMB967.2 million for the year ended 31 December 2020 to approximately RMB954.4 million for the year ended 31 December 2021, which was mainly attributable to (i) a decrease in labour service expenses of salesmen of offline channels due to the decrease in the number of concessionary counters and salesman staff; (ii) less promotion activities carried out by supermarkets during the year, resulting in the decrease in distribution costs associated with supermarkets during the year; (iii) a decrease in salary and employee benefits expenses due to the decrease in the number of management staff as a result of optimization of employee structure; (iv) a decrease in transportation expenses due to the change of logistic service provider; (v) a decrease in the depreciation expenses during the year, as the Group adjusted the number of concessionary counters, and it resulted in the decrease of the total number of concessionary counters and the carrying amount of the fixed asset attributable to concessionary counters; (vi) an increase in revenue resulted in the increase in the commission expense; (vii) an increase in the advertisement promotion expenses was mainly due to more sales and marketing promotion activities were conducted during the year; and (viii) a decrease in the promotion expenses, because of the Group implemented the stringent control over the promotion gift expenses related to offline concessionary counter.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit, other taxes and fees, intermediary service expenses, depreciation and amortisation expense, research and development expenses. The administrative expenses increased from approximately RMB81 million for the year ended 31 December 2020 to approximately RMB81.6 million for the year ended 31 December 2021. The increase was mainly due to (i) an increase in the salary and employee benefit expenses, it was mainly attributed to the adjustment in the group organization structure (the "**Adjustment**"), it resulted in the change of the accounting classification of certain department staff's salary, certain department staff's salary was recorded in the salary and employee benefit expenses under the selling and distribution expenses before the Adjustment and recorded in the salary and the employee benefit expenses under the administrative expenses after the Adjustment; (ii) an increase in other taxes and fees due to the increase in value-added tax as a result of the increased revenue; (iii) share based payment decreased because employee stock options have reached the vesting period during the year ended 31 December 2021; (iv) intermediary service expenses decreased due to the enhanced cost control measures and (v) research and development expenses increased because of increase in the number of research and development department staff.

__Reversal of impairment/(Impairment Losses) on Financial Assets, Net__

The Group recorded a reversal of impairment of on financial assets of approximately RMB3.5 million for the year ended 31 December 2021, while the Group recorded an impairment losses on financial asset of approximately RMB9.6 million for the year ended 31 December 2020, which was mainly attributable to a decrease in overdue trade and bills receivables balances.

__Other Expenses__

Other expenses of the Group decreased to approximately RMB3.7 million for the year ended 31 December 2021 from approximately RMB10.7 million for the year ended 31 December 2020 primarily due to a decrease in the loss on disposal of property, plant and equipment.

__Finance Costs__

For the year ended 31 December 2021, the Group's finance costs decreased from approximately RMB1 million for the year ended 31 December 2020 to approximately RMB0.8 million primarily attributable to a decrease in the interest expense on lease liabilities.

__Profit/(Loss) before Tax__

As a result of the foregoing, the Group recorded a loss before tax of approximately RMB53.1 million for the year ended 31 December 2020, while a profit before tax of approximately RMB113.7 million for the year ended 31 December 2021.

__Income Tax (Expense)/Credit__

The Group's income tax credit was RMB38.6 million for the year ended 31 December 2020, while the income tax expense was RMB27.2 million for the year ended 31 December 2021, which was mainly due to an increase in current income tax expense, which was attributed to the increase in assessable profit for the year. The Group's effective tax rate for the year was different from the PRC statutory income tax rate of 25%, the difference was mainly attributable to the China's enterprise income tax exemption for income from preliminarily-processed agricultural products, and such waiver is applicable to the Group's certain products.

__Profit/(Loss) for the Year__

The Group recorded a loss of approximately RMB14.5 million for the year ended 31 December 2020, while a profit of approximately RMB86.5 million for the year ended 31 December 2021.

Financial Resources Review

Working Capital and Financial Resources

	As at 31 December 2021 (RMB million)	As at 31 December 2020 (RMB million)
Trade and bills receivables	**176.6**	161.9
Trade payables	**59.7**	52.6
Inventories	**81.3**	92
Trade receivables turnover days[(1)]	**38**	49
Trade payables turnover days[(2)]	**43**	52
Inventory turnover days[(3)]	**67**	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 increase of trade and bills receivables was primarily attributable to the increase in revenue. The decrease in trade receivables turnover days is primarily attribute to the shorten credit period granted to its customers.

The increase of trade payables was primarily attributable to an increase in the purchase of raw materials and packaging materials used for production. The trade payables turnover days decreased due to the shorten of payment days granted by our raw materials suppliers.

The decrease of inventories was mainly attributable to the inventory control carried out by our warehouses. The decrease in inventory turnover days is mainly because the implementation of the rigid inventory control measures.

Liquidity and Financial Resources

As at 31 December 2021, the Group's cash and cash equivalents amounted to RMB646 million, representing an increase of approximately 14.5% from RMB564.2 million as at 31 December 2020.

The Group's primary uses of cash were payment for suppliers, daily operating expenses, construction of the new manufacturing facility in Nansha County, Guangzhou, purchase of financial assets (i.e. wealth management product) at fair value through profit or loss and the payment of dividend. The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 31 December 2021, the Group had no interest-bearing borrowings (31 December 2020: nil).

Net cash flows from operating activities were RMB130.8 million in 2021, as compared with net cash flows from operating activities of RMB86.9 million in 2020. Net cash used in investing activities were RMB2.1 million in 2021, as compared with net cash flows used in investing activities of RMB62.4 million in 2020. Net cash flows used in financing activities were RMB41.6 million in 2021, as compared with net cash used in financing activities of RMB7.7 million in 2020.

As at 31 December 2021, the Group had net current asset of RMB709.9 million, as compared with net current asset of RMB665.5 million as at 31 December 2020.

Capital Commitments

As at 31 December 2021, the Group had contracted but not provided for capital commitments of approximately RMB10.8 million, which were primarily related to the purchase of property, plant and equipment to be used for the construction of new manufacturing facility in Nansha County Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB23.1 million as at 31 December 2020.

Currency Exposure and Management

The Group operates its business in China and conducts domestic business in RMB. Substantially all of the Group's assets are denominated in RMB, and the Group mainly incurs cost in HK$ and RMB. The Group is exposed to foreign exchange risk with respect mainly to HK$ which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of 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 2021, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2021, the Group's restricted bank deposit of RMB0.9 million were pledged for the land of Nansha, Guangzhou and for a litigation with employee (31 December 2020: RMB0.6 million).

Gearing Ratio

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

Employees and Remuneration Policy

As at 31 December 2021, the Group had 713 employees, as compared with 739 employees as at 31 December 2020. For the year ended 31 December 2021, costs of employees, excluding Directors' emoluments, amounted to a total of RMB155.8 million, representing a decrease of approximately 7.5% from RMB168.5 million in 2020. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

The Group'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 at 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 a 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 2021.

OTHER INFORMATION

Annual General Meeting

The AGM will be held on 31 May 2022 (Tuesday). 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

The Directors do not recommend any payment of final dividend for the year ended 31 December 2021.

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 2022 (Wednesday)
- Closure of register of members — 26 May 2022 (Thursday) to 31 May 2022 (Tuesday)

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 2021.

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 2021.

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 for 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

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 2021.

Sufficiency of Public Float

The Company has maintained a sufficient public float from the 1 January 2021 and up to 31 December 2021.

Events after the Reporting Period

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 2021.

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 2021, the breakdown of the intended use and the amount utilised as at 31 December 2021 were as follows:

	Budget *(HK$ million)*	Accumulated amount utilised as at 31 December 2020 *(HK$ million)*	Amount utilised during the year of 2021 *(HK$ million)*	Remaining balance as at 31 December 2021 *(HK$ million)*	Expected timeline for unutilised Net Proceeds
To further enhance the integrated distribution platform and optimise our channel mix	222.9	222.9	–	–	N/A
– To expand the online presence through further developing the technology infrastructure	22.3	22.3	–	–	N/A
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	22.3	–	–	N/A
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	44.6	–	–	N/A
– To expand into and introduce our existing and/or new products at various high frequency "on-the-go" consumption channels	133.7	133.7	–	–	N/A
To construct the new Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	230.5	45.2	109.4	By end of 2023
To use for general corporate purposes	31.8	31.8	–	–	N/A
Total	**636.8**	**485.2**	**45.2**	**109.4**	

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

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 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 2021.

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 2021 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 2021 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 2021 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 28 March 2022

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.