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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 2022

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 2022 (the “**Period**”), together with the comparative figures for the corresponding period in 2021 as below.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Period-on- period change Increase
	2022 RMB'000	2021 RMB'000	
Revenue	840,411	753,899	11%
Gross profit	542,809	534,881	1%
Profit before tax	67,952	47,962	42%
Profit for the period attributable to owners of the company	52,355	38,032	38%
Earnings per share (expressed in RMB)			
Basic	0.024	0.017	41%
Diluted	0.024	0.017	41%

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

For the six months ended 30 June 2022

	Notes	For the six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
REVENUE	4	840,411	753,899
Cost of sales		<u>(297,602)</u>	<u>(219,018)</u>
Gross profit		542,809	534,881
Other income and gains	4	8,950	6,536
Selling and distribution expenses		(440,941)	(455,103)
Administrative expenses		(41,213)	(38,373)
(Impairment of)/reversal of impairment of financial assets		(1,115)	3,752
Other expenses		(203)	(3,330)
Finance costs		<u>(335)</u>	<u>(401)</u>
PROFIT BEFORE TAX	5	67,952	47,962
Income tax expense	6	<u>(15,597)</u>	<u>(9,930)</u>
PROFIT FOR THE PERIOD		<u>52,355</u>	<u>38,032</u>
Attributable to:			
Owners of the parent		52,355	38,032
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>52,355</u>	<u>38,032</u>

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

For the six months ended 30 June 2022

	For the six months ended 30 June	
Note	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	52,355	38,032
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(22,380)	5,321
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	27,678	(7,195)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	57,653	36,158
Attributable to:		
Owners of the parent	57,653	36,158
Non-controlling interests	–	–
	57,653	36,158
Earnings per share (expressed in RMB)	8	
Basic	0.024	0.017
Diluted	0.024	0.017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		305,746	313,704
Right-of-use assets		48,646	51,206
Intangible assets		473	338
Deferred tax assets		60,691	67,300
Total non-current assets		415,556	432,548
CURRENT ASSETS			
Inventories		71,899	81,349
Trade and bills receivables	9	211,432	176,591
Prepayments, other receivables and other assets		53,999	49,511
Amount due from related parties		11,303	11,141
Cash and cash equivalents		660,933	646,015
Restricted bank deposits		556	888
Total current assets		1,010,122	965,495
CURRENT LIABILITIES			
Trade payables	10	51,537	59,732
Contract liabilities		13,878	15,874
Other payables and accruals		109,703	127,735
Lease liabilities		6,790	6,200
Amounts due to related parties		61	261
Tax payable		49,908	45,772
Total current liabilities		231,877	255,574
NET CURRENT ASSETS		778,245	709,921
TOTAL ASSETS LESS CURRENT LIABILITIES		1,193,801	1,142,469

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2022

		30 June 2022	31 December 2021
Notes	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	
NON-CURRENT LIABILITIES			
Deferred income	48	156	
Deferred tax liabilities	9,204	7,524	
Lease liabilities	7,984	10,550	
 Total non-current liabilities	 17,236	 18,230	
 Net assets	 1,176,565	 1,124,239	
EQUITY			
Equity attributable to owners of the parent			
Share capital	147	147	
Other reserves	1,176,418	1,124,092	
 Non-controlling interests	 –	 –	
 Total equity	 1,176,565	 1,124,239	

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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 2022 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 2021.

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 2021, 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>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

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

- (a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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 2022 and 2021.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<i>Revenue from contracts with customers</i>		
Sale of goods	840,411	753,899
	=====	=====
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	840,411	753,899
	=====	=====
	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<u>Other income and gains</u>		
Government grants*	2,946	1,429
Bank interest income	1,509	259
Income from financial assets measured at fair value through profit or loss	3,205	3,501
Commission income from provision of a sales platform	590	911
Others	700	436
	=====	=====
	8,950	6,536
	=====	=====

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

5. PROFIT BEFORE TAX

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

	For the six months	
	ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold	297,602	219,018
Depreciation of property, plant and equipment	11,352	12,953
Depreciation of right-of-use assets	3,268	3,666
Lease payments not included in the measurement of lease liabilities	1,403	1,802
Research and development costs*	2,728	1,836
Amortisation of intangible assets	130	131
Employee benefit expense (excluding directors' and chief executive's remuneration and research and development costs):		
Wages and salaries	66,432	73,406
Equity-settled share option expenses	1,123	1,404
Pension scheme contributions	6,502	8,047
Auditor's remuneration	783	396
Impairment of/(reversal of impairment of) trade and bills receivables**	1,115	(3,752)
Loss on disposal of items of property, plant and equipment	7	3,056
Income from financial assets measured at fair value through profit or loss	(3,205)	(3,501)
Finance costs	335	401
Bank interest income	(1,509)	(259)

* 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/(reversal of impairment of) trade and bills receivables is included in "(Impairment of)/reversal of impairment of financial assets" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in the British Virgin Islands and the Cayman Islands during the period (six months ended 30 June 2021: 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 2021: 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 2021: 25%) on their taxable profits for the six months ended 30 June 2022 and 2021.

For the six months ended 30 June 2022 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 major components of income tax expenses in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2022	2021
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	7,308	5,262
Deferred tax	8,289	4,668
	<hr/>	<hr/>
Total tax charge for the period	15,597	9,930
	<hr/> <hr/>	<hr/> <hr/>

7. INTERIM DIVIDENDS

The board of directors do not recommend any payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB35,016,000).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

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

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

<u>Earnings</u>	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>52,355</u>	<u>38,032</u>
<u>Shares</u>	For the six months ended 30 June	
	2022	2021
Weighted average number of ordinary shares in issue	2,188,514,000	2,188,514,000
Weighted average number of shares held for the share award scheme	<u>(4,304,286)</u>	–
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>2,184,209,714</u>	<u>2,188,514,000</u>
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	–
Share award	<u>1,919,952</u>	–
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>2,186,129,666</u>	<u>2,188,514,000</u>

The share option had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share for the period ended 30 June 2022 and 2021.

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	212,537	174,008
Bills receivable	4,783	7,356
Impairment	<u>(5,888)</u>	<u>(4,773)</u>
	<u>211,432</u>	<u>176,591</u>

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
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 1 month	206,371	165,817
1 to 2 months	2,519	4,433
2 to 3 months	1,459	895
Over 3 months	<u>1,083</u>	<u>5,446</u>
	<u>211,432</u>	<u>176,591</u>

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	38,999	40,834
1 to 2 months	8,946	13,601
2 to 3 months	1,323	1,939
Over 3 months	2,269	3,358
	51,537	59,732

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2022, a new round of the COVID-19 pandemic caused disruption to the continuous recovery of economic and social life across the country. Against this backdrop, the development of China's fast-moving consumer goods market remained relatively stable, demonstrating the resilience of rigid supplies to people's livelihood.

Facing the challenges under an objective environment, the Group specified the brand positioning of "Natural Food for macrobiotic living (食養, 找五谷磨房)" during the period. Under this positioning support, the Group continued to vigorously develop its e-commerce business, proactively explored new opportunities under its offline channel business and promoted its offline counter business with the theme of "streamlining + efficiency improvement".

In the first half of 2022, the revenue of the Group increased by approximately 11.5% year-on-year to RMB840.4 million; and net profit increased by approximately 37.7% year-on-year to RMB52.4 million.

E-Commerce Channels

In facing the emerging new opportunities in e-commerce channels, the Group consolidated its leading position in sales through traditional e-commerce platforms and vigorously developed social media e-commerce represented by Douyin Store and Kuaishou stores.

In the first half of 2022, the Group's e-commerce channel realised a total revenue of RMB326.6 million, representing an increase of approximately 36.6% 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 the first half of 2022, we achieved excellent performance in key marketing festivals such as "3.8 Goddess Festival" and "618".

With remarkable results achieved on the traditional e-commerce platform, we acutely captured the opportunities arising from the rapid development of social e-commerce platforms, including Douyin Store and Kuaishou (快手). Through various forms of video/graphics with rich contents, as well as brand self-broadcasting and 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 incorporate the brand positioning of “Search Wugu Mofang for Food and Nourishment” into the deep mind of consumers and enhance the brand’s favourability and recognition. As a result, sales revenue of Wugu Mofang through social e-commerce channels, including Douyin Store and Kuaishou (快手), accounted for approximately 37% of the sales revenue of e-commerce channels. The structure of the Group’s e-commerce channels has become more balanced.

Offline Channels

The Group’s offline channels mainly include the direct-operated concessionary counters business in supermarkets and the new 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. However, the number of the Group’s concessionary counters decreased during the Period due to the resurgence of the pandemic. As of 30 June 2022, the Group had 2,234 concessionary counters nationwide, representing a year-on-year decrease of approximately 17.4%, which was the main reason for the decrease in the revenue of the Group’s concessionary counters during the Period. During the Period, the Group’s concessionary counters has recorded a sales revenue of RMB431.6 million, representing a year-on-year decrease of approximately 16.0%.

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.

New channel business

The Group's new channel business achieved outstanding performance in the first half of 2022. As of 30 June 2022, the Group had successfully conducted sales activities in nearly 5,000 terminal stores, including 3,816 small modern channels, 449 high-end and boutique supermarkets and 676 cheap-price hypermarkets, achieved a sales revenue of RMB82.2 million from the new channel business.

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.

The Group's core single product “Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)” recorded a year-on-year increase of approximately 36% in GMV on e-commerce channels, maintaining its position as the No. 1 natural grain powder product in the entire network. In addition, the sesame pills (芝麻丸) performed well as reflected by a year-on-year increase of approximately 670% in GMV.

BRAND BUILDING

Through cooperating with professional third-party institutions in the first half of 2022, we specified the brand positioning of “Natural Food for macrobiotic living” and led the brand’s long-term and sustainable development under its support.

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 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 forward into the future, despite increasing uncertainties in economic situation development as a result of COVID-19 epidemic resurgence, the epidemic will eventually come to an end from a relatively longer term perspective, while people’s escalating health awareness and consumption upgrading will be the drivers for long-term development. At the same time, we ought to face the trend of times with changes in channels and seize new opportunities in the era under the background of increasingly differentiated sales channels. The Group will popularize the brand positioning of “Natural Food for macrobiotic living” among consumers and enhance brand recognition through efficient brand establishment and marketing covering all product portfolios. We will continue to establish a unique model with mutual empowerment covering all channels, vigorously develop new channel business and firmly seize new trends in the changing e-commerce channels. Moreover, we will continue to assess the opportunities in different channels and develop suitable product portfolios, providing consumers with higher-quality services and product experience.

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. 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			
	2022		2021	
	RMB'000	%	RMB'000	%
Offline channels	513,798	61.1	514,719	68.3
Offline concessionary counter	431,610	51.4	513,869	68.2
New channel business	82,188	9.8	850	0.1
Online channels	326,613	38.9	239,180	31.7
E-commerce platforms	326,613	38.9	239,180	31.7
Total	840,411	100.0	753,899	100.0

For the six months ended 30 June 2022, absolute amounts of revenue generated from sales through its offline and online channels increased as compared to the corresponding period in 2021 and total revenue increased from RMB753.9 million for the six months ended 30 June 2021 to RMB840.4 million for the six months ended 30 June 2022. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased to approximately 61.1% for the Period from approximately 68.3% for the corresponding period in 2021, while revenue generated from sales through online channels increased from approximately 31.7% for the six months ended 30 June 2021 to approximately 38.9% for the Period. The increase in revenue was primarily due to the increase in the revenue generated from online channels is mitigated by the decrease in the revenue generated from offline channels.

The decrease in sales through offline channels was mainly attributable to (i) the adoption of a “streamlining + efficiency improvement” strategy for offline concessionary counters, which reduced the number of offline concessionary counters, increasing the average revenue of each offline concessionary counters, it resulted the decrease in the revenue generated from offline concessionary counters; (ii) the new channel business had a good development momentum. During the Period, benefiting from the effective implementation of the Group’s new channel business development strategy, it resulted in the strong growth of new channel business revenue of the Group.

Revenue generated from sales through online channels increased, which was mainly due to (i) the “Black Nutrition (黑之養)” series products branded under the black nutrition expert brand recorded an excellent sales; (ii) the E-commerce team has well operated the traditional E-commerce channels while setting up and operating other social E-commerce platforms including Douyin Store, which successfully contributed to the significant increase in revenue generated from online channels.

As a percentage of the total revenue, revenues generated from sales through the offline channels decreased from approximately 68.3% in the same period of 2021 to approximately 61.1% in the Period of 2022, while revenue generated from sales through the online channels increased from approximately 31.7% in the corresponding period of 2021 to approximately 38.9% in the Period of 2022.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 35.9% from RMB219 million for the six months ended 30 June 2021 to RMB297.6 million for the Period, which was mainly attributable to (i) an increase in sales volume and production volume led to the increase in raw material cost; (ii) an increase in transportation expenses, for transportation expenses related to fulfilling the customer contract, it was recorded under selling and distribution expenses for the period ended 30 June 2021, while it was recorded under cost of sales for the Period.

Gross profit of the Group increased from approximately RMB534.9 million for the six months ended 30 June 2021 to approximately RMB542.8 million for the Period. The gross profit margin decreased from approximately 71% for the six months ended 30 June 2021 to approximately 64.6% for the Period, it was primarily due to the increase in percentage of revenue derived from online channels, the gross profit margin of products sold through online channels was relative low.

Other Income and Gains

Other income and gains of the Group increased by RMB2.4 million from approximately RMB6.5 million for the six months ended 30 June 2021 to approximately RMB9.0 million for the Period, which was mainly attributable to (i) an increase in government grants; (ii) an increase in bank interest income, because of the increase in the average bank balance; (iii) a decrease in agency commission due to the decrease in revenue derived from selling the third party products on wechat member store.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of advertising expenses, commission expenses, labour service expenses of salesmen, salary and employee benefit expenses, sales promotion expenses and others. The selling and distribution expenses decreased from approximately RMB455.1 million for the six months ended 30 June 2021 to approximately RMB440.9 million for the Period, which was mainly attributable to the combined effects of the following factors: (i) an increase in the advertisement promotion expenses was mainly due to more sales and marketing promotion activities were conducted with online channels especially the Douyin platform during the Period; (ii) a decrease in transportation expenses, for transportation expenses related to fulfilling the customer contract, it was recorded under selling and distribution expenses for the period ended 30 June 2021, while it was recorded under cost of sales for the Period; (iii) a decrease in labor service expenses of salesmen of offline channels due to the decrease in the number of concessionary counters and salesman staffs; (iv) less promotion activities carried out by supermarkets during the Period, resulting in the decrease in distribution costs associated with supermarkets during the Period.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, office expenses, intermediary service fees, depreciation and amortization, research and development expenses, share based payment expenses and others. The administrative expenses remained basically increased from approximately RMB38.4 million for the six months ended 30 June 2021 to approximately RMB41.2 million for the Period. The increase was mainly due to the combined effects of the following factors: on one hand, (i) an increase in the salary and employee benefit expenses, it was mainly attributed to the salary increment for the administrative staffs; (ii) an increase in financial compensation because of the dismissal of employees; (iii) the rental of the new Hong Kong office resulted in the increase in the rental expenses; and on the other hand, (i) travelling expenses decreased because of the epidemic prevention measures resulted in the decrease in the demand of business travelling.

(Impairment of)/Reversal of Impairment of Financial Assets

The Group recorded an impairment of financial assets of approximately RMB1.1 million for the Period, while the Group recorded a reversal of the impairment of financial assets of approximately RMB3.8 million for the six months ended 30 June 2021, it was mainly attributable to an increase in overdue trade and bills receivables balances.

Other Expenses

The other expenses of the Group decreased by approximately RMB3.1 million from approximately RMB3.3 million for the six months ended 30 June 2021 to approximately RMB0.2 million for the Period, which was mainly attributable to a decrease in the loss on disposal of property, plant and equipment.

Finance Costs

The Group's finance costs decreased from approximately RMB0.4 million for the six month ended 30 June 2021 to approximately RMB0.3 million for the Period, which was primarily due to a decrease in the interest expense on lease liabilities.

Profit Before Tax

As a result of the foregoing, the Group recorded a profit before tax of approximately RMB68 million for the Period, as compared to a profit before tax of approximately RMB48 million for the six months ended 30 June 2021.

Income Tax Expense

The Group's income tax expense increased from approximately RMB9.9 million for the six month ended 30 June 2021 to approximately RMB15.6 million for the Period, which was mainly attributable to (i) the reversal of the deferred tax assets recognised in the same period in 2021; (ii) an increase in current income tax expense as a result of the increase in the assessable profit for the Period. 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 income derived from preliminary agricultural proceed products which was not subject to income tax in China.

Profit for the Period

The Group recorded a profit of approximately RMB52.4 million for the Period, as compared to a profit of the Group of approximately RMB38 million for the six months ended 30 June 2021.

Financial Resources Review

Working Capital and Financial Resources

	As at 30 June 2022 (RMB million)	As at 31 December 2021 (RMB million)
Trade and bills receivables	211.4	176.6
Trade payables	51.5	59.7
Inventories	71.9	81.3
Trade receivables turnover days ⁽¹⁾	42	38
Trade payables turnover days ⁽²⁾	34	43
Inventory turnover days ⁽³⁾	46	67

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 increase in trade and bills receivables was primarily attributable to the increase in revenue. The increase in trade receivables turnover days is primarily attributed to longer time to settle the trade and bills receivables by its debtors.

The decrease in trade payables and the trade payables turnover days was due to suppliers shorten the credit period granted to the Group.

The decrease in inventories and the decrease in inventory turnover days were primarily attributable to the Group's implementation of rigid inventory control measures during the Period.

Liquidity and Financial Resources

As at 30 June 2022, the Group's cash and cash equivalents amounted to RMB660.9 million, representing an increase of approximately 2.3% from RMB646 million as at 31 December 2021.

The Group's primary uses of cash were payment for suppliers, daily operating expenses 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 2022, the Group had net current asset of RMB778.2 million, as compared with net current asset of RMB709.9 million as at 31 December 2021.

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 2022, the Group had no contingent liabilities.

Pledge of Assets

As at 30 June 2022, the Group did not pledge any assets.

Gearing Ratio

As at 30 June 2022, the Group's gearing ratio (calculated by dividing total debt by total assets as of the end of each period) was approximately 1.0% (31 December 2021: 1.2%).

Employees and Remuneration Policy

As at 30 June 2022, the Group had 694 employees, as compared with 696 employees as at 31 December 2021. For the Period, costs of employees, excluding Directors' emoluments, amounted to a total of RMB75.2 million, representing a decrease of approximately 9.3% from RMB82.9 million during the corresponding period in 2021. 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 2021, 63,692,502 share options were outstanding. During the Period, no share options had been cancelled and exercised. As at 30 June 2022, 63,692,502 share options were outstanding.

Significant Acquisition, Disposal or Investment

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

OTHER INFORMATION

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 2022.

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 2022:

	Budget <i>(HK\$ million)</i>	Accumulated amount utilised as at 31 December 2021 <i>(HK\$ million)</i>	Amount utilised during the Period <i>(HK\$ million)</i>	Remaining balance as at 30 June 2022 <i>(HK\$ million)</i>	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	275.7	6.2	100.2	By end of 2023
To use for general corporate purposes	31.8	31.8	–	–	N/A
Total	636.8	530.4	6.2	100.2	

As at 30 June 2022, 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 the Interim Results by Auditor

The unaudited interim condensed consolidated financial statements of the Group for the Period has been reviewed by the auditors of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.szwgmf.com>). The interim report of the Company for the six months ended 30 June 2022 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, 29 August 2022

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.