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五谷磨房

Natural Food International Holding Limited
五谷磨房食品國際控股有限公司

(Registered by way of continuation in the Cayman Islands with limited liability)
(Stock Code: 1837)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of Natural Food International Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the consolidated results of the Group for the six months ended 30 June 2019 (the "**Period**"), together with the comparative figures for the corresponding period in 2018 as below.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		**Period-on-period Change**
	2019	2018	**Increase/**
	RMB'000	RMB'000	**(Decrease)**
Revenue	**917,520**	851,022	7.8%
Gross profit	**700,415**	653,793	7.1%
Profit before tax	**119,050**	81,793	45.6%
Adjusted net profit	**110,636**	100,186	10.4%
Profit for the period attributable to owners of the Company	**105,339**	67,281	56.6%
Earnings per share *(expressed in RMB)*			
Basis	**0.05**	0.04	25.0%
Diluted	**0.05**	0.04	25.0%

Note:

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

At the Board meeting held on 29 August 2019, the Board was resolved to declare the payment of an interim dividend of RMB0.0181 per ordinary share representing a total distribution of approximately RMB39,603,741 to be paid on 30 September 2019 (Monday) to shareholders of the Company whose names appear on the Company's register of members on 18 September 2019 (Wednesday), which represented approximately 37.6% of the Group's net profit for the six months ended 30 June 2019 and 35.8% of the adjusted net profit.

Dividends payable to holders of shares will be paid in Hong Kong dollar. The dividends payable in Hong Kong dollar will be calculated based on the middle exchange rate of Hong Kong dollar to Renminbi published by the People's Bank of China on the dividends declaration date. During the day (i.e., 29 August 2019), the middle exchange rate of Renminbi to Hong Kong dollar was HK$1.00 = RMB0.90337. Accordingly, the amount of the interim dividends for each share of the Company for the six months ended 30 June 2019 is HK$0.02.

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

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
	Notes	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	**917,520**	851,022
Cost of sales		**(217,105)**	(197,229)
Gross profit		**700,415**	653,793
Other income and gains	4	**10,591**	10,079
Selling and distribution expenses		**(540,890)**	(504,398)
Administrative expenses		**(47,141)**	(57,264)
Impairment losses on financial assets		**(2,825)**	(194)
Other expenses		**(851)**	(132)
Finance costs		**(249)**	–
Loss on fair value changes of convertible and redeemable preferred shares		**–**	(20,091)
PROFIT BEFORE TAX	5	**119,050**	81,793
Income tax expense	6	**(13,711)**	(14,512)
PROFIT FOR THE PERIOD		**105,339**	67,281
Attributable to:			
Owners of the parent		**105,339**	67,281
Non-controlling interests		**–**	–
		105,339	67,281
PROFIT FOR THE PERIOD		**105,339**	67,281

	Note	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(1,308)**	(1,260)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**2,004**	(6,687)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**106,035**	59,334
Attributable to:			
Owners of the parent		**106,035**	59,334
Non-controlling interests		**–**	–
		106,035	59,334
Earnings per share (expressed in RMB)	8		
Basic		**0.05**	0.04
Diluted		**0.05**	0.04

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**261,709**	212,646
Right-of-use assets		**63,478**	–
Prepaid land lease payments		**–**	36,640
Intangible assets		**1,242**	1,543
Deferred tax assets		**18,052**	18,448
Total non-current assets		**344,481**	269,277
CURRENT ASSETS			
Inventories		**86,490**	122,286
Trade and bills receivables	9	**265,395**	239,602
Financial assets at fair value through profit or loss		**106,047**	71,400
Prepayments, deposits and other receivables		**70,690**	59,423
Amount due from a director		**163**	–
Amount due from a related party		**10,150**	9,375
Time deposit		**25,000**	25,000
Cash and cash equivalents		**425,902**	604,913
Total current assets		**989,837**	1,131,999
CURRENT LIABILITIES			
Trade payables	10	**40,402**	72,121
Interest-bearing borrowing		**–**	70,096
Contract liabilities		**12,452**	16,669
Other payables and accruals		**118,582**	137,357
Lease liabilities		**5,105**	–
Dividend payable		**1,294**	–
Tax payable		**33,387**	27,570
Total current liabilities		**211,222**	323,813
NET CURRENT ASSETS		**778,615**	808,186
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,123,096**	1,077,463

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred income	**183**	277
Deferred tax liabilities	**4,263**	4,361
Lease liabilities	**19,685**	–
Total non-current liabilities	**24,131**	4,638
Net assets	**1,098,965**	1,072,825
EQUITY		
Equity attributable to owners of the parent		
Share capital	**148**	149
Treasury shares	**(29,936)**	–
Other reserves	**1,128,753**	1,072,676
Non-controlling interests	**–**	–
Total equity	**1,098,965**	1,072,825

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

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 2019 has 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 does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

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

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

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

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17. Since the Group recognised the right-of-use assets in relation to the operating lease that were under HKAS 17 at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments on transition date, there were no impact on the retained earnings.

(a) Adoption of HKFRS 16

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

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

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

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

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

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

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

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

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

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise any option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise any option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets RMB'000	Lease liabilities RMB'000
As at 1 January 2019	41,347	2,491
Additions	23,777	23,777
Depreciation charge	(1,646)	–
Interest expense	–	106
Payments	–	(1,584)
As at 30 June 2019	63,478	24,790

The Group recognised rental expenses from short-term leases of RMB3,778,000 for the six months ended 30 June 2019.

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 2019 and 2018.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Sale of goods	**917,520**	851,022
Timing of revenue recognition		
Goods transferred at a point in time	**917,520**	851,022

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other income and gains		
Government grants*	**3,316**	4,809
Other interest income	**–**	1,499
Bank interest income	**879**	1,017
Interest income from loans to related parties	**–**	63
Gain on change in fair value of financial assets through profit or loss	**1,447**	–
Income from financial assets at fair value through profit or loss	**375**	2,359
Commission income from provision of a sales platform	**4,051**	–
Others	**523**	332
	10,591	10,079

* 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	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold	**217,105**	197,229
Depreciation of property, plant and equipment	**13,890**	11,962
Depreciation of right-of-use assets	**1,646**	–
Amortisation of prepaid land lease payments	**–**	430
Operating lease payments	**–**	4,987
Short-term lease payments	**3,778**	–
Research and development costs*	**4,275**	3,417
Amortisation of intangible assets	**301**	326
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**79,329**	73,364
Equity-settled share option expenses	**5,297**	–
Pension scheme contributions	**9,589**	11,678
Auditors' remuneration	**377**	45
Expenses related to the proposed Initial Public Offering	**–**	12,814
Impairment of trade receivables**	**2,825**	194
Loss on disposal of items of property, plant and equipment	**–**	53
Loss on fair value changes of convertible and redeemable preferred shares	**–**	20,091
Gain on change in fair value of financial assets through profit or loss	**1,447**	–
Finance costs	**249**	–
Bank interest income	**(879)**	(1,017)

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

** Impairment of trade receivables is included in "Impairment losses on financial assets" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in the British Virgin Islands and the Cayman Islands during the period (six months ended 30 June 2018: 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 2018: 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 2018: 25%) on their taxable profits for the six months ended 30 June 2019 and 2018.

For the six months ended 30 June 2019 and 2018, 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	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	**11,131**	11,294
Deferred tax	**2,580**	3,218
Total tax charge for the period	**13,711**	14,512

7. INTERIM DIVIDENDS

At the board meeting held on 28 March 2019, the board proposed a final dividend in respect of the year ended 31 December 2018 of RMB0.02 per ordinary share of the Company. Such proposed dividend totaling RMB45,382,000 was approved by the shareholders on 31 May 2019 and paid on 30 June 2019 and on 1 August 2019, respectively.

On 29 August 2019, the board declared an interim dividend of RMB0.0181 per share, amounting to a total of approximately RMB39,603,741 calculated based on the latest number of ordinary shares issued of 2,192,000,000 at the date of the interim report, is not recognised as a liability in the condensed consolidated statement of financial position.

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, adjusted to reflect fair value changes of convertible and redeemable preferred shares. The weighted average number of ordinary shares used in the calculation is the number of 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 or conversion of all dilutive potential ordinary shares into ordinary shares.

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

Earnings	**For the six months ended 30 June**	
	2019	2018
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**105,339**	67,281
Adjustment:		
Fair value changes of convertible and redeemable preferred shares	**–**	20,091
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation	**105,339**	87,372

Shares	For the six months ended 30 June	
	2019	2018
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**2,210,638,137**	1,591,800,000
Effect of dilution – weighted average number of ordinary shares:		
Convertible and redeemable preferred shares	**–**	208,200,000
Share options	**–**	–
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**2,210,638,137**	1,800,000,000*

On 12 December 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of USD1 each in the share capital of the Company were subdivided into 100,000 shares of USD0.00001 each. Following the share subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the period ended 30 June 2018 has been retrospectively adjusted.

* Because the diluted earnings per share amount is increased when taking convertible and redeemable preferred shares into account, the convertible and redeemable preferred shares had an anti-dilutive effect on the basic earnings per share for the period ended 30 June 2018 and were ignored in the calculation of diluted earnings per share.

9. TRADE AND BILLS RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	**268,089**	241,690
Bills receivable	**6,191**	3,972
Impairment	**(8,885)**	(6,060)
	265,395	239,602

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

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**222,325**	186,513
1 to 2 months	**13,538**	22,839
2 to 3 months	**4,082**	12,815
Over 3 months	**25,450**	17,435
	265,395	239,602

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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**30,492**	62,491
1 to 2 months	**7,332**	6,081
2 to 3 months	**907**	2,057
Over 3 months	**1,671**	1,492
	40,402	72,121

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

MANAGEMENT DISCUSSION AND ANALYSIS

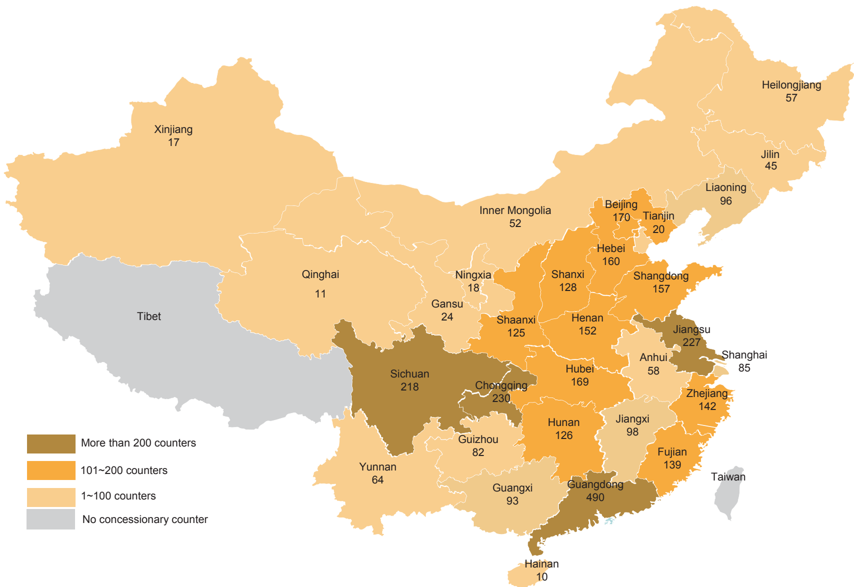
Business Overview

The Group is a well-recognised natural health food company in China. The Group continued to expand its business and dedicate to build China's most valuable natural health food brand. During the Period, the Group continued its efforts to achieve satisfactory revenue target. Revenue from the sales of the Group's products increased by approximately 7.8% to RMB917.5 million from RMB851.0 million for the corresponding period in 2018, primarily attributable to an increase in revenue generated from both the online channels and offline channels as a result of the growing popularity of the Group's products.

Products

Leveraging its research and development capabilities and market leading position to grow its business and broaden its customer base, the Group has expanded its product offerings and launched 17 popular natural healthy food products during the Period, including various healthy tea bags and congee. The increase in product iterations has also promoted the sales of the Group's existing products as well as attracted new customers who are interested in trying the Group's new natural health food products. As a result, the Group had attracted more than 22.8 million registered members as at 30 June 2019.

Over the course of more than 10 years, the Group has built an extensive sales network across China, including multiple offline and online sales channels. As at 30 June 2019, the distribution platform consisted of (i) an offline network of 3,454 concessionary counters in supermarkets in around 300 cities across China, and (ii) online channels, including major e-commerce platforms, such as Tmall, JD.com, Vipshop.com and social media platform, namely, the WeChat member stores. The following map shows the geographic distribution of the concessionary counters across China as at 30 June 2019:



Offline Sales Network Expansion

The Group's offline channels currently comprise concessionary counters in supermarkets. During the Period, as a result of the Group's proactive adjustment of its business strategies and evaluation of the business operations and performance of the existing concessionary counters, the Group newly opened 209 concessionary counters and closed 650 concessionary counters.

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

	Six months ended 30 June 2019	Year ended 31 December 2018
At the beginning of the Period	**3,895**	3,690
Add: newly opened counters	**209**	851
Less: closed counters	**650**	646
Total concessionary counters	**3,454**	3,895

The table below sets forth the breakdown of number of concessionary counters within each sales region, each expressed as an absolute amount and as a percentage of the total number of concessionary counters, for the six months ended 30 June 2019 and year ended 31 December 2018, respectively:

	As at 30 June 2019		As at 31 December 2018	
		%		%
Eastern China [(1)]	**1,057**	**30.6**	1,226	31.5%
Southern China [(2)]	**723**	**20.9**	826	21.2%
Northern China [(3)]	**705**	**20.4**	806	20.7%
Southwest China [(4)]	**594**	**17.2**	634	16.3%
Northwest China [(5)]	**375**	**10.9**	403	10.3%
Total number of counters	**3,454**	**100.0**	3,895	100.0%

Notes:

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

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

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

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

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

As at 30 June 2019, the Group has upgraded over 300 existing concessionary counters to a new type of integrated health food stores, which are designed to sell selected health food products. The upgrade of the concessionary counters helped further diversify the product offerings, improve the in-store consumer experience and satisfy additional demands from customers, which in turn strategically improved the sales revenue and profitability of the Group.

The Group launched its "sales partnership programme" in September 2018 in certain concessionary counters, which is in expectation to provide further incentives to the sales personnel and in turn increase its sales revenue. As at 30 June 2019, the sales partnership programme was carried out in over 400 concessionary counters.

Online Platforms

The Group continued to expand its online presence, and had experience a significant growth during the Period. Revenue generated from online channels, mainly e-commerce platforms, represented an increase in revenue of approximately 33.7%, as compared with the corresponding period in 2018.

As the Group's first online platform, Tmall flagship store remained a significant revenue contributor to the Group for the six months ended 30 June 2019, where the Group recorded revenue from the Tmall flagship store of RMB92.1 million, representing an increase of 30.3% as compared with the corresponding period in 2018.

The Group also continued to increase the resources devoted to its self-operated WeChat member store through enhancing the membership services and interactions with its fans through its WeChat member store to further promote customer loyalty and encourage customers to make more purchases. As at 30 June 2019, the Group had approximately 7.6 million followers on its WeChat official account. During the Period, the Group had an overall approximately 12 million readership of articles published to its WeChat official account, with 91 articles published.

Production Capacity

In view of the increasing demand of natural food in China and the overloaded capacity of its production facilities, in March 2018, the Group commenced construction of the first phase of its new manufacturing facility in Nansha County, Guangzhou, China for a manufacturing facility for various kinds of products. The new production facility has a total gross floor of approximately 60,000 square metres and is expected to be completed construction by the end of 2019. After the completion of the new manufacturing facility, the Group's estimated maximum production capacity will increase to 40,000 tons per year.

To increase the production efficiency, the Group has continuously made improvement to its production plants by upgrading machinery and adopting automation in certain production plants during the Period.

Research and Development

In the area of research and development, the Group continued to follow the market-oriented approach and is currently in the process of broadening its product offerings to include grain-based meal replacements, grain-based health snacks and grain-related health supplements. In addition to its in-house product development efforts, the Group continued to pursue cooperation with selected universities and research institutions to enhance its capability for innovation. In particular, the Group jointly launched "Wugu Mofang Grain Nutrition Research Centre"（五谷磨房穀物營養研究中心）with Chinese Nutrition Society（中國營養學會）in 2018 to conduct further research on nutrients of natural grains. As at 30 June 2019, the Group had completed the development of over 180 new products that are available for mass production.

Outlook

Benefiting from the growing purchasing power and rising health awareness of Chinese consumers, the Group remains full of confidence about its future. The Group will continue to maintain and strengthen its leading market position as a well-recognised natural health food company in China, thus the Group continues to pursue the following strategies:

- Further enhance its integrated distribution platform and optimise its channel mix;
- Continue to expand and diversify its product portfolio while upholding its core values of "Naturally Made, No Additives Needed";
- Further strengthen its brand equity to increase market share;
- Further enhance operational efficiency and optimise technology infrastructure; and
- Recruit, train and incentivise talent.

Financial Review

Revenue

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

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Offline channels	**734,419**	**80.0**	699,833	82.2
Online channels	**183,101**	**20.0**	151,189	17.8
WeChat member store	**47,470**	**5.2**	49,746	5.8
E-commerce platforms	**135,631**	**14.8**	101,443	12.0
Total	**917,520**	**100.0**	851,022	100.0

For the six months ended 30 June 2019, absolute amounts of revenue generated from sales through the offline and online channels continued to increase as compared to the corresponding period in 2018. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased to 80.0% for the Period from 82.2% for the corresponding period in 2018, while revenue generated from sales through online channels increased from 17.8% for the six months ended 30 June 2018 to 20.0% for the Period.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 10.1% from RMB197.2 million for the six months ended 30 June 2018 to RMB217.1 million for the Period, which was mainly attributable to an increase in the changes in inventories of finished goods and work in progress as a result of the more refined inventory control measures of the Group. Gross profit for the Group increased from approximately RMB653.8 million for the six months ended 30 June 2018 to approximately RMB700.4 million for the Period. The gross profit margin remained stable at 76.8% and 76.3% for the six months ended 30 June 2018 and 2019, respectively.

Other Income and Gains

Other income and gains of the Group increased by RMB0.5 million from approximately RMB10.1 million for the six months ended 30 June 2018 to approximately RMB10.6 million for the Period, which was mainly attributable to the increase in commission income from provision of a sales platform in connection with the sales of third-party brand products on the WeChat member store offset by the decrease in other interest income, government grants and proceeds from financial assets measured at fair value through profit or loss.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of commission expense, labour service expense of salesmen, salary and employee benefit expenses, sales promotion expenses, transportation expenses and others. The selling and distribution expenses increased from approximately RMB504.4 million for the six months ended 30 June 2018 to approximately RMB540.9 million for the Period, which was mainly attributable to (i) increase in commission expenses primarily due to the increase in the sales volume of the Group, and (ii) increase in labour service expense of salesman.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, office expenses, intermediary service fee, travel and communication expense, depreciation and amortization and others. The administrative expenses decreased from approximately RMB57.3 million for the six months ended 30 June 2018 to approximately RMB47.1 million for the Period. The decrease was mainly due to the decrease in intermediary service fee in connection with the global offering of the shares of the Company.

Impairment Losses on Financial Assets

Impairment losses on financial assets of the Group increased to approximately RMB2.8 million for the Period from approximately RMB0.2 million for the six months ended 30 June 2018 due to the increase in the loss of impairment of trade receivable as a result of the ageing of an increasing amount of trade receivables.

Other Expenses

The other expenses of the Group increased by RMB0.8 million from approximately RMB0.1 million for the six months ended 30 June 2018 to approximately RMB0.9 million for the Period, which was mainly attributable to the increase in exchange losses arising from the cash and cash equivalents.

Finance Costs

For the Period, the Group's finance costs amounted to approximately RMB0.2 million (six months ended 30 June 2018: nil), primarily due to the increase in the interests on interest-bearing borrowing and lease liabilities.

Profit Before Tax

As a result of the foregoing, the profit before tax of the Group increased by 45.6% from approximately RMB81.8 million for the six months ended 30 June 2018 to approximately RMB119.1 million for the Period.

Income Tax Expense

The Group's income tax expense decreased by 5.5% from RMB14.5 million for the six months ended 30 June 2018 to RMB13.7 million for the Period, primarily due to a higher portion of income from preliminary processing of agricultural products that are exempted from enterprise income tax. The Group's effective tax rate decreased from 17.7% for the six months ended 30 June 2018 to 11.5% for the Period. The Group's effective tax rates for both periods were lower than the PRC statutory income tax rate of 25%. This lower effective tax rate is attributable to China's enterprise income tax exemption for income from preliminarily processed agricultural products, which are applicable to certain of the Group's products.

Profit for the Period

Profit of the Group for the Period increased by 56.6% from approximately RMB67.3 million for the six months ended 30 June 2018 to approximately RMB105.3 million.

Financial Resources Review

Working Capital and Financial Resources

	As at 30 June 2019 (RMB million)	As at 31 December 2018 (RMB million)
Trade and bills receivables	**265.4**	239.6
Trade payables	**40.4**	72.1
Inventories	**86.5**	122.3
Trade receivables turnover days[1]	**50**	42
Trade payables turnover days[2]	**47**	62
Inventory turnover days[3]	**87**	87

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

The decrease of trade payables and the decrease in the trade payables turnover days were mainly due to the early settlement of trade payables made by the Group to certain suppliers.

The decrease of inventories was mainly attributable to a decrease in finished goods after the festive season in early 2019. The inventory turnover days remained stable.

Liquidity and Financial Resources

As at 30 June 2019, the Group's cash and cash equivalents amounted to RMB425.9 million, representing a decrease of approximately 29.6% from RMB604.9 million as at 31 December 2018.

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

As at 30 June 2019, the Group did not have any interest-bearing borrowing (31 December 2018: approximately RMB70.1 million).

As at 30 June 2019, the Group had net current asset of RMB778.6 million, as compared with net current asset of RMB808.2 million as at 31 December 2018.

Currency Exposure and Management

The Group operates its business in China and conducts domestic business in RMB. Substantially all of the Group's assets are denominated in RMB, and the Group mainly incurs cost in HK$ and RMB. The Group is exposed to foreign exchange risk with respect mainly to HK$ which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of 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 2019, the Group had no contingent liabilities.

Pledge of Assets

As at 30 June 2019, the Group did not pledge any assets.

Gearing Ratio

As at 30 June 2019, the Group's gearing ratio (calculated by dividing total debt (including interest-bearing borrowing, dividend payable and lease liabilities) by total assets as of the end of each period) was approximately 2.0% (31 December 2018: 5.0%).

Employees and Remuneration Policy

As at 30 June 2019, the Group had 836 employees, as compared with 1,007 employees as at 31 December 2018. For the Period, costs of employees, excluding Directors' emoluments, amounted to a total of RMB94.2 million, representing an increase of approximately 10.8% from RMB85.0 million during the corresponding period in 2018. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

The Group 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 2018, 222,100,000 share options were outstanding. During the Period, the Company granted 74,019,823 share options on 12 June 2019. None of the grant of share options were subject to shareholders' approval. During the Period, no share options had lapsed or had been exercised. As at 30 June 2019, 148,080,177 share options were outstanding.

Significant Acquisition, Disposal or Investment

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

OTHER INFORMATION

Interim Dividend

At the meeting of the Board held on 29 August 2019, the Board has resolved to declare the payment of an interim dividend of HK$0.02 per share for the six months ended 30 June 2019. The interim dividend will be paid on Monday, 30 September 2019 to the shareholders whose names appear on the register of members of the Company on Wednesday, 18 September 2019. The record date for determining the entitlement to the proposed interim dividend is Wednesday, 18 September 2019.

Book Close Periods

For determining the entitlement of the proposed interim dividend, the register of members of the Company will be closed from Monday, 16 September 2019 to Wednesday, 18 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 13 September 2019.

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

During the Period, the Company bought back a total of 29,000,000 Shares on the Stock Exchange. All the Shares bought back were subsequently cancelled by the Company. Details of those transactions are as follows:

Month of buy-back	Number of Shares bought back	Price per Share		Aggregate price
		Highest	Lowest	
		HKD	HKD	HKD
January	–	–	–	–
February	6,802,000	1.64	1.50	10,824,383.36
March	–	–	–	–
April	14,198,000	1.65	1.58	22,979,915.61
May	–	–	–	–
June	8,000,000	1.50	1.40	11,636,507.74

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

Events after the Period

There was non significant subsequent event relevant to the business or financial performance of the Group that come to the attention of the Directors since 30 June 2019.

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 2019:

	Budget	**Amount that had been utilized as at 30 June 2019**	**Remaining balance as at 30 June 2019**
			(HK$ million)
To further enhance the integrated distribution platform and optimise our channel mix	222.9	13.7	209.2
– To expand the online presence through further developing the technology infrastructure	22.3	9.1	13.2
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	4.6	17.7
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	–	44.6
– To expand into and introduce our existing and/or new products at various high-frequency "on-the-go" consumption channels	133.7	–	133.7
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	100.0	282.1
To use for general corporate purposes	31.8	31.8	–
Total	636.8	145.5	491.3

As at 30 June 2019, the Group holds the unutilised net proceeds as deposit with creditworthy banks with no recent history of default. There has been no change to the intended use of net proceeds as previously disclosed in the prospectus of the Company dated 29 November 2018. The proceeds were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the prospectus of the Company.

Model Code for Securities Transactions by Directors

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

Audit Committee

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

Review of Preliminary Announcement

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

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.szwgmf.com). The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 30 August 2019

As at the date of this announcement, the executive Directors are Ms. GUI Changqing and Mr. ZHANG Zejun; and the independent non-executive Directors are Mr. ZHANG Senquan, Mr. HU Peng and Mr. OUYANG Liangyi.