



五谷磨房

—— 自然之养 ——

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 Report
2020



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GUI Changqing
Mr. ZHANG Zejun

Non-executive Directors

Ms. TSE Cheung On Anne
Mr. WANG Duo

Independent Non-executive Directors

Mr. ZHANG Senquan
Mr. HU Peng
Mr. OUYANG Liangyi

AUDIT COMMITTEE

Mr. ZHANG Senquan (Chairman)
Mr. HU Peng
Mr. OUYANG Liangyi

REMUNERATION COMMITTEE

Mr. HU Peng (Chairman)
Mr. ZHANG Senquan
Mr. OUYANG Liangyi

NOMINATION COMMITTEE

Mr. OUYANG Liangyi (Chairman)
Ms. GUI Changqing
Mr. HU Peng

COMPANY SECRETARY

Mr. CHAN Yik Pun, HKICPA

AUTHORISED REPRESENTATIVES

Mr. ZHANG Zejun
Mr. CHAN Yik Pun, HKICPA

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 01837

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

7th Floor, West Tower
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Binhai Community, Yuehei Street
Nanshan District
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2703, 27th Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

<http://www.szwgmf.com>

AUDITORS

Ernst & Young
Certified Public Accountants



Corporate Information

HONG KONG LEGAL ADVISOR

Wilson Sonsini Goodrich & Rosati

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO BOX 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
Ping An Bank
Bank of Communications

Management Discussion and Analysis

BUSINESS OVERVIEW

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

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

PRODUCTS

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

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

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

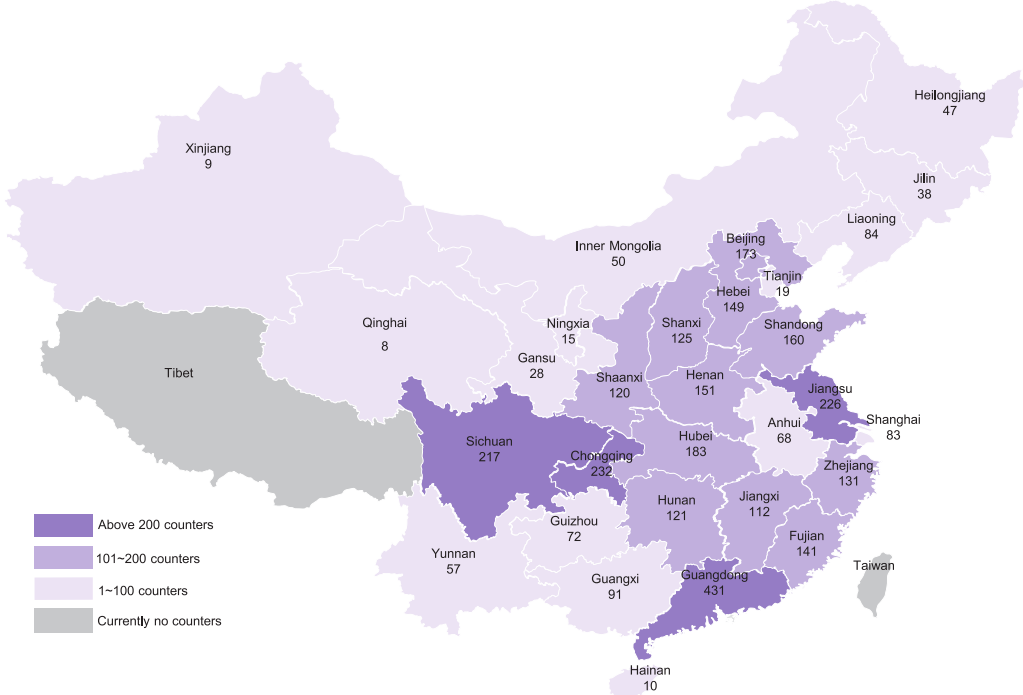
Management Discussion and Analysis

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

SALES CHANNELS

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

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



Management Discussion and Analysis

OFFLINE SALES NETWORK

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

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

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

The table below sets forth the breakdown of number of concessionary counters within each sales region, each expressed as an absolute amount and as a percentage of the total number of concessionary counters, for the six months ended 30 June 2020 and year ended 31 December 2019, respectively:

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

Management Discussion and Analysis

Notes:

- (1) Eastern China refers to Anhui, Jiangsu, Zhejiang, Henan, Hubei, Hunan and Jiangxi Provinces and Shanghai.
- (2) Southern China refers to Fujian, Guangdong, Guangxi and Hainan Provinces.
- (3) Northern China refers to Heilongjiang, Jilin, Liaoning, Hebei and Shandong Provinces and Beijing and Tianjin.
- (4) Southwest China refers to Guizhou, Sichuan and Yunnan Provinces and Chongqing.
- (5) Northwest China refers to Gansu, Ningxia, Qinghai, Shanxi and Shaanxi Provinces and Inner Mongolia and Xinjiang Autonomous Regions.

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

ONLINE CHANNELS

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

Management Discussion and Analysis

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

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

PRODUCTION CAPACITY

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

BRAND BUILDING

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

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

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



Management Discussion and Analysis

OUTLOOK

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

- Continue to optimize the product portfolio, develop new core powder products and make every endeavour to develop new product categories with promising potential;
- Continue to accelerate the development of online channels and take the lead to explore new channels;
- Continue to strengthen the management of followers; and
- Focus on marketing and promoting activities to enhance brand competitiveness.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

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

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

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

Cost of Sales, Gross Profit and Gross Profit Margin

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

Management Discussion and Analysis

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Impairment Losses on Financial Assets

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

Other Expenses

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

Management Discussion and Analysis

Finance Costs

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

(Loss)/Profit Before Tax

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

Income Tax Credit/(Expense)

The Group's income tax expense was RMB13.7 million for the six month ended 30 June 2019, while the income tax credit was RMB30.9 million for the Period, it was mainly attributable to (i) decrease in current income tax expense as a result of the decrease in the assessable profit for the Period, (ii) increase in the deferred tax income as a result of the losses incurred by some subsidiaries in the Group. The Group's effective tax rates for the Period was different from the PRC statutory income tax rate of 25%. The difference was mainly attributable to the above-mentioned recognition of the deferred tax assets and income derived from preliminary agricultural proceed products which was not subject to income tax in China.

(Loss)/Profit for the Period

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

Management Discussion and Analysis

FINANCIAL RESOURCES REVIEW

Working Capital and Financial Resources

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

Notes:

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

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

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

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

Management Discussion and Analysis

Liquidity and Financial Resources

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

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

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

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

Currency Exposure and Management

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

Contingent Liabilities

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

Pledge of Assets

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

Capital Structure

The company continued to maintain a healthy and sound financial position. The total assets of the Group decreased from RMB1,355,402,000 as at 31 December 2019 to RMB1,278,696,000 as at 30 June 2020, whilst the total liabilities changed from RMB265,561,000 as at 31 December 2019 to RMB228,577,000 as at 30 June 2020. Liabilities-to-assets ratio decreased from 19.6% to 17.9%.



Management Discussion and Analysis

Gearing Ratio

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

Employees and Remuneration Policy

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

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

Corporate Governance and Other Information

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June 2020, the interests or short positions of the Directors or chief executives of the Company then in office in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

Long position in ordinary shares of the Company:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of Shareholding
Mr. ZHANG Zejun (Note 2)	Founder of a discretionary trust	930,000,000 (L)	42.49%
Ms. GUI Changqing (Note 2)	Beneficiary of trust	930,000,000 (L)	42.49%
Mr. WANG Duo	Beneficial owner	2,000,000 (L)	0.09%

Long position in share options of the Company:

Name of Director	Number of share options beneficially owned
Ms. GUI Changqing	2,000,000
Mr. ZHANG Zejun	2,000,000
Mr. ZHANG Senquan	2,000,000
Mr. HU Peng	2,000,000
Mr. OUYANG Liangyi	2,000,000

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Trident Trust Company (HK) Limited, the trustee of the Paddy Aroma Trust, holds the entire issued share capital of Paddy Aroma Investment Limited. Paddy Aroma Investment Limited in turn holds the entire issued share capital of Natural Capital, which in turn directly holds 930,000,000 Shares. The Paddy Aroma Trust is a discretionary trust established by Mr. Zhang (as the settlor) and the discretionary beneficiaries of which include Mr. ZHANG Zejun, Ms. GUI Changqing (the wife of Mr. ZHANG Zejun) and his children. Accordingly, each of Mr. ZHANG Zejun, Ms. GUI Changqing, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2020, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate percentage of Shareholding
Trident Trust Company (HK) Limited (Note 2)	Trustee of a trust	930,000,000 (L)	42.49%
Paddy Aroma Investment Limited (Note 2)	Interest in a controlled corporation	930,000,000 (L)	42.49%
Natural Capital Holding Limited (Note 2)	Beneficial owner	930,000,000 (L)	42.49%
PepsiCo, Inc.	Beneficial owner	566,506,000 (L)	25.89%
Mr. YANG Zhuoya (Note 3)	Interest in controlled corporation; beneficial owner	183,784,000 (L)	8.4%
Natural Investment Holding Limited (Note 3)	Beneficial owner	27,794,000 (L)	1.27%
Beadvance Investments Limited (Note 3)	Beneficial owner	150,000,000 (L)	6.85%

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Trident Trust Company (HK) Limited, the trustee of the Paddy Aroma Trust, holds the entire issued share capital of Paddy Aroma Investment Limited. Paddy Aroma Investment Limited in turn holds the entire issued share capital of Natural Capital, which in turn directly holds 930,000,000 Shares. The Paddy Aroma Trust is a discretionary trust established by Mr. ZHANG Zejun (as the settlor) and the discretionary beneficiaries of which include Mr. ZHANG Zejun, Ms. GUI Changqing (the wife of Mr. ZHANG Zejun) and his children. Accordingly, each of Mr. ZHANG Zejun, Ms. GUI Changqing, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital.
- (3) Mr. YANG Zhuoya holds 5,990,000 Shares in the capacity as a beneficial owner. Mr. YANG Zhuoya holds the entire issued share capital of each of Natural Investment Holding Limited and Beadvance Investments Limited, which in turn directly holds 27,794,000 Shares and 150,000,000 Shares, respectively. Accordingly, Mr. YANG Zhuoya is deemed to be interested in the 27,794,000 Shares held by Natural Investment Holding Limited and the 150,000,000 Shares held by Beadvance Investments Limited.

Corporate Governance and Other Information

Save as disclosed above, as at 30 June 2020, so far as the Directors or chief executive of the Company are aware, no other persons (other than a Director or the chief executive of the Company) or entities had any interests or short positions in the Shares or underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended June 30, 2020, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Group.

PURCHASE, SALE AND REDEMPTION OF SHARES

There were no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiary during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

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

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

The Board is of the opinion that the Company has complied with all the provisions set out in the CG Code during the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Since the listing of the Company on the Main Board of the Stock Exchange on 12 December 2018, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code for the dealings in securities transactions by the Directors. All Directors have confirmed that they complied with the provisions of the Model Code during the six months ended 30 June 2020.

Corporate Governance and Other Information

SHARE OPTION SCHEME

On 19 November 2018, the Shareholders approved and conditionally adopted a share option scheme (the “**Share Option Scheme**”) to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. The Share Option Scheme became effective on 12 December 2018.

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons (as defined below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company, consultant, advisor, customer, supplier, agent, partner or contractor to the Group (the “**Eligible Persons**”).

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not in aggregate exceed 222,100,000 Shares, representing 10% of the total number of issued Shares as at 12 December 2018 (the “**Listing Date**”).

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date (subject to earlier termination by the Company in general meeting or by the Board), after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme. There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Board.

Corporate Governance and Other Information

During the six months ended 30 June 2020, 2,441,520 share options had been cancelled and no share options had been exercised. As at 30 June 2020, 64,601,829 share options were outstanding.

Details of the options remained outstanding and at 30 June 2020 are as follows:

Name and class of grantees	Date of grant	Number of share options				Balance as at 30 June 2020	Exercise price per share (HK\$)	Exercisable period
		Balance as at 1 January 2020	Granted during the six months ended 30 June 2020	Exercised during the six months ended 30 June 2020	Cancelled/ Lapsed during the six months ended 30 June 2020			
Executive Directors								
Ms. GUI Changqing	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Mr. ZHANG Zejun	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
		-				-		
Independent non-executive Directors								
Mr. ZHANG Senquan	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Mr. HU Peng	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Mr. OUYANG Liangyi	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
		10,000,000	-	-	-	10,000,000		
	12 June 2019	2,920,000	-	-	-	2,920,000	1.468	Note a
	12 June 2019	20,263,349	-	-	(2,111,520)	18,151,829	1.468	Note b
Continuous contract employees	12 June 2019	19,000,000	-	-	-	19,000,000	1.468	Note c
	12 June 2019	13,860,000	-	-	(330,000)	13,530,000	1.468	Note d
		56,043,349	-	-	(2,441,520)	53,601,829		
Those who have or may have contributed to the Group	12 June 2019	1,000,000	-	-	-	1,000,000	1.468	Note a
		1,000,000	-	-	-	1,000,000		
		67,043,349	-	-	(2,441,520)	64,601,829		

- (a) 20% of the share options are exercisable commencing from 12 June 2020, 20% of the share options are exercisable commencing from 12 June 2021, 20% of the share options are exercisable commencing from 12 June 2022, 20% of the share options are exercisable commencing from 12 June 2023, 20% of the share options are exercisable commencing from 12 June 2024 respectively to 11 December 2028.
- (b) 40% of the share options are exercisable commencing from 12 June 2019, 30% of the share options are exercisable commencing from 12 June 2020, 30% of the share options are exercisable commencing from 12 June 2021 respectively to 11 December 2028.
- (c) 50% of the share options are exercisable commencing from 12 December 2019, 50% of the share options are exercisable commencing from 12 December 2020 respectively to 11 December 2028.
- (d) 100% of the share options are exercisable commencing from 12 June 2020 to 11 December 2028.

Corporate Governance and Other Information

INTERIM DIVIDEND

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

EVENTS AFTER THE PERIOD

The Group has no significant subsequent events after 30 June 2020 which are required to be disclosed as at the date of this report.

USE OF PROCEEDS FROM THE LISTING

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

	Budget	Amount that had been utilised as at 30 June 2020 (HK\$ million)	Remaining balance as at 30 June 2020
To further enhance the integrated distribution platform and optimise our channel mix	222.9	163.7	59.2
– To expand the online presence through further developing the technology infrastructure	22.3	22.3	–
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	12.5	9.8
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	25.6	19
– To expand into and introduce our existing and/or new products at various high frequency “on-the-go” consumption channels	133.7	103.3	30.4
To construct the new Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	192.1	190
To use for general corporate purposes	31.8	31.8	–
Total	636.8	387.6	249.2

Corporate Governance and Other Information

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

CHANGES TO DIRECTORS' INFORMATION

Mr. Zhang Senquan resigned the position of independent non-executive director from Bonny International Holding Limited, the shares of which are listed on the Stock Exchange (stock code: 1906), in June 2020. Mr. Zhang's current appointments in listed companies include serving as an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd. (江蘇艾迪藥業股份有限公司), the shares of which have been listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange (stock code: 688488SH) since July 2020.

Save as disclosed above, the Directors confirm that no other information is required to be disclosed pursuant to 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

As of the date of this report, the audit committee of the Company (the "**Audit Committee**") consists of Mr. Zhang Senquan, Mr. Hu Peng and Mr. Ouyang Liangyi, the independent non-executive Directors of the Company. The chairman of the Audit Committee is Mr. Zhang Senquan.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, including the review of the financial information of the Group for the six months ended 30 June 2020. The consolidated financial information for the six months ended 30 June 2020 have been reviewed by the Company's independent auditor, 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 Accountant.

Report on Review of Interim Condensed Consolidated Financial Statements



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To the board of directors of Natural Food International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 24 to 48, which comprise the condensed consolidated statement of financial position of Natural Food International Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-months period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
27 August 2020

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	5	610,330	917,520
Cost of sales		(196,970)	(217,105)
Gross profit		413,360	700,415
Other income and gains	5	3,815	10,591
Selling and distribution expenses		(457,409)	(540,890)
Administrative expenses		(39,351)	(47,141)
Impairment losses on financial assets		(1,267)	(2,825)
Other expenses		(1,932)	(851)
Finance costs	7	(443)	(249)
(LOSS)/PROFIT BEFORE TAX	6	(83,227)	119,050
Income tax credit/(expense)	8	30,886	(13,711)
(LOSS)/PROFIT FOR THE PERIOD		(52,341)	105,339
Attributable to:			
Owners of the parent	10	(52,341)	105,339
Non-controlling interests		-	-
		(52,341)	105,339

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the six months ended 30 June 2020

	Note	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD		(52,341)	105,339
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(9,718)	(1,308)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		13,368	2,004
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(48,691)	106,035
Attributable to:			
Owners of the parent		(48,691)	106,035
Non-controlling interests		–	–
		(48,691)	106,035
(Losses)/earnings per share (expressed in RMB)			
Basic	10	(0.02)	0.05
Diluted	10	(0.02)	0.05

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	305,873	299,772
Right-of-use assets		54,990	58,611
Intangible assets		760	1,045
Deferred tax assets		53,337	19,958
Total non-current assets		414,960	379,386
CURRENT ASSETS			
Inventories	12	78,076	113,957
Trade and bills receivables	13	154,607	225,583
Financial assets at fair value through profit or loss	14	55,000	–
Prepayments, deposits and other receivables	15	52,836	67,065
Amount due from a director	21	–	6
Amount due from a related party	21	11,060	10,802
Cash and cash equivalents	16	511,601	558,048
Restricted bank deposits	16	556	555
Total current assets		863,736	976,016
CURRENT LIABILITIES			
Trade payables	17	46,068	63,265
Contract liabilities		11,524	10,762
Other payables and accruals		120,300	133,462
Lease liabilities		4,566	5,565
Tax payable		28,705	32,915
Total current liabilities		211,163	245,969
NET CURRENT ASSETS		652,573	730,047
TOTAL ASSETS LESS CURRENT LIABILITIES		1,067,533	1,109,433

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		44	88
Deferred tax liabilities		3,324	3,324
Lease liabilities		14,046	16,180
Total non-current liabilities		17,414	19,592
Net assets		1,050,119	1,089,841
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	147	147
Treasury shares	19	–	(6,359)
Other reserves		1,049,972	1,096,053
Non-controlling interests		–	–
Total equity		1,050,119	1,089,841

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent								Total
	Share capital	Treasury shares	Share premium	Share option reserve	Merger reserve	Exchange fluctuation reserve	Statutory surplus reserve	Retained profits	
	RMB'000 (Note18)	RMB'000 (Note19)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020 (audited)	147	(6,359)	1,144,097	14,789	(87,350)	(13,855)	32,496	5,876	1,089,841
Loss for the period	-	-	-	-	-	-	-	(52,341)	(52,341)
Exchange differences on translation of foreign operations	-	-	-	-	-	(9,718)	-	-	(9,718)
Translation from functional currency to presentation currency	-	-	-	-	-	13,368	-	-	13,368
Total comprehensive loss for the period	-	-	-	-	-	3,650	-	(52,341)	(48,691)
Cancellation of treasury shares	-	6,359	(6,359)	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	8,969	-	-	-	-	8,969
At 30 June 2020 (unaudited)	147	-	1,137,738*	23,758*	(87,350)*	(10,205)*	32,496*	(46,465)*	1,050,119

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2020

	Attributable to owners of the parent								
	Share capital	Treasury shares	Share premium	Share option reserve	Merger reserve	Exchange fluctuation reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000 (Note18)	RMB'000 (Note19)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019 (audited)	149	-	1,222,304	-	(87,350)	(19,332)	32,328	(75,274)	1,072,825
Profit for the period	-	-	-	-	-	-	-	105,339	105,339
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,308)	-	-	(1,308)
Translation from functional currency to presentation currency	-	-	-	-	-	2,004	-	-	2,004
Total comprehensive income for the period	-	-	-	-	-	696	-	105,339	106,035
Shares repurchased	(1)	(29,936)	(9,283)	-	-	-	-	-	(39,220)
Equity-settled share option arrangements	-	-	-	5,297	-	-	-	-	5,297
Share issue expenses	-	-	(590)	-	-	-	-	-	(590)
Transfer to statutory reserve funds	-	-	-	-	-	-	809	(809)	-
Final 2018 dividend declared to shareholders	-	-	-	-	-	-	-	(45,382)	(45,382)
At 30 June 2019 (unaudited)	148	(29,936)	1,212,431	5,297	(87,350)	(18,636)	33,137	(16,126)	1,098,965

* These reserve accounts comprise the consolidated reserves of RMB1,049,972,000 (31 December 2019: RMB1,096,053,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(83,227)	119,050
Adjustments for:		
Bank interest income	(774)	(879)
Gain on change in fair value of financial assets through profit or loss	-	(1,447)
Income from financial assets measured at fair value through profit or loss	(495)	(375)
Finance costs	443	249
Depreciation of property, plant and equipment	14,940	13,890
Depreciation of right-of-use assets	3,671	1,646
Amortisation of intangible assets	285	301
Impairment of trade receivables	1,267	2,825
Equity-settled share option expenses	8,969	5,297
Unrealised exchange gain	(185)	(1,799)
	(55,106)	138,758
Decrease in inventories	35,881	35,796
Decrease/(increase) in trade and bills receivables	69,709	(28,618)
Decrease/(increase) in prepayments, deposits and other receivables	14,229	(13,483)
Decrease/(increase) in an amount due from a director	6	(163)
Increase in amounts due from related parties	(258)	(775)
Decrease in trade payables	(17,197)	(31,719)
Decrease in other payables and accruals	(13,080)	(16,222)
Increase/(decrease) in contract liabilities	762	(4,217)
Decrease in deferred income	(44)	(94)
Cash generated from operations	34,902	79,263
Interest received	774	879
Income tax paid	(6,704)	(7,595)
Net cash flows from operating activities	28,972	72,547

Interim Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net cash flows from operating activities	28,972	72,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets measured at fair value through profit or loss	(186,000)	(130,000)
Proceeds from redemption of financial assets measured at fair value through profit or loss	131,495	97,175
Purchase of items of property, plant and equipment	(21,139)	(65,510)
Net cash flows used in investing activities	(75,644)	(98,335)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank loans	–	(69,567)
Share issue expenses	–	(590)
Interest paid	–	(144)
Principal portion of lease payments	(3,613)	(1,584)
Share repurchase	–	(39,220)
Dividend paid	–	(44,088)
Net cash flows used in financing activities	(3,613)	(155,193)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(50,285)	(180,981)
Cash and cash equivalents at beginning of period	558,048	604,913
Effect of foreign exchange rate changes, net	3,838	1,970
CASH AND CASH EQUIVALENTS AT END OF PERIOD	511,601	425,902
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	511,601	425,902

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

The Company was formerly known as Roomy Development Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands (the “BVI”) on 30 November 2009. It was registered by way of continuation in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands and changed its name to “Natural Food International Holding Limited” on 11 May 2018. The address of the registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 December 2018 (the “Listing”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in processing and selling natural health food in the People’s Republic of China (the “PRC”).

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

The interim condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

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

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

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

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of natural health products. Information reported to the Group's management for the purpose of resources allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The Group operates within one geographical location because 100% of its revenue was generated in the PRC and all of its non-current assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

The Group's customers primarily consist of individual customers. For the six months ended 30 June 2020 and 2019, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, and trade discounts (net of value-added tax) for the six months ended 30 June 2020 and 2019.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue from contracts with customers		
Sale of goods	610,330	917,520
Timing of revenue recognition		
Goods transferred at a point in time	610,330	917,520
	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Other income and gains		
Government grants*	900	3,316
Bank interest income	774	879
Gain on change in fair value of financial assets through profit or loss	–	1,447
Income from financial assets at fair value through profit or loss	495	375
Commission income from provision of a sales platform	929	4,051
Others	717	523
	3,815	10,591

* 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.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. (LOSS)/PROFIT BEFORE TAX

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

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

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

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

7. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Interests on:		
Borrowing from a financial institution	–	144
Lease liabilities	443	105
	443	249

8. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in the British Virgin Islands and the Cayman Islands during the period (six months ended 30 June 2019: Nil).

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period (six months ended 30 June 2019: Nil).

Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC was 25% (six months ended 30 June 2019: 25%) on their taxable profits for the six months ended 30 June 2020 and 2019.

For the six months ended 30 June 2020 and 2019, income arising from the preliminary agricultural processed products in Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd. was not subject to income tax, pursuant to the relevant PRC tax laws.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. INCOME TAX (Continued)

The major components of income tax expenses in the interim condensed consolidated statement of profit or loss are:

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

9. INTERIM DIVIDENDS

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

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

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

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

The calculations of basic and diluted earnings/(losses) per share are based on:

Earnings/(losses)	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(losses) per share calculation	(52,341)	105,339

Shares	For the six months ended 30 June	
	2020	2019
Weighted average number of ordinary shares in issue used in the basic earnings/(losses) per share calculation	2,188,514,000	2,210,638,137
Effect of dilution – weighted average number of ordinary shares: Share options	–	–
Weighted average number of ordinary shares in issue used in the diluted earnings/(losses) per share calculation	2,188,514,000	2,210,638,137

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

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment at a cost of RMB4,244,000 (six months ended 30 June 2019: RMB13,670,000), and incurred construction in progress at a cost of RMB16,783,000 (six months ended 30 June 2019: RMB49,283,000).

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials	21,815	21,089
Work in progress	2,004	2,729
Finished goods	47,009	77,305
Consumables	7,248	12,834
	78,076	113,957

13. TRADE AND BILLS RECEIVABLES

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

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. TRADE AND BILLS RECEIVABLES (Continued)

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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Financial asset at fair value through profit or loss	55,000	–
Unlisted investments:		
Structured deposits	55,000	–

As at 30 June 2020, the Group had structured deposits, denominated in RMB55,000,000, with expected rates of return ranging from 1.35% to 3.60% per annum.

The fair values of the structured deposits are approximate to their carrying values.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Prepayments	18,775	18,848
Deposits	5,294	5,197
Value-added tax recoverable	13,416	13,913
Employee advances	3,773	16,199
Other receivables	11,578	12,908
	52,836	67,065

Other receivables are unsecured, interest-free and repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. CASH AND CASH EQUIVALENTS AND TIME DEPOSIT

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cash and bank balances	465,929	558,048
Time deposits with original maturity of 30 days when acquired	45,672	–
Restricted bank deposits	556	555
	512,157	558,603
Less: Restricted bank deposits	(556)	(555)
Cash and cash equivalents	511,601	558,048
Denominated in:		
– RMB	315,821	362,508
– HK\$	196,336	196,095
	512,157	558,603

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposit was made for 30 days and earned interest at the time deposit rate. The bank balances and time deposit are deposited with creditworthy banks with no recent history of default.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	36,156	47,100
1 to 2 months	5,221	11,772
2 to 3 months	2,375	2,567
Over 3 months	2,316	1,826
	46,068	63,265

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

18. SHARE CAPITAL

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Issued and fully paid:		
2,188,514,000 (2019: 2,193,014,000) ordinary shares	147	147

19. TREASURY SHARES

The Company repurchased a total of 33,500,000 of its shares on the Hong Kong Stock Exchange for a total consideration of RMB46,124,000 and 29,000,000 shares repurchased were cancelled during 2019. The remaining 4,500,000 shares repurchased were cancelled during the six months ended 30 June 2020.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

20. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Capital commitments	29,891	36,620

As at 30 June 2020 and 31 December 2019, the amounts of capital commitments were related to the purchase of property, plant and equipment.

21. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the period:

Sales of goods to a related party:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Shenzhen Jingya Natural Food Science and Technology Co., Ltd. ("Shenzhen Jingya")	248	675

The sales prices offered to Shenzhen Jingya were based on a cost-plus approach with a mark-up margin. Shenzhen Jingya is controlled by Wei Qiuping, the sister-in-law of Mr. Zhang Zejun, a director of the Company. Shenzhen Jingya purchased goods from the Group during the six months ended 30 June 2020 and 2019.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

21. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

(1) Amount due from a director:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Mr. Zhang Zejun	–	6

The balance is non-interest-bearing.

(2) Amount due from a related party:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Shenzhen Jingya	11,060	10,802

The balance of Shenzhen Jingya is unsecured, interest-free and repayable on demand. The balances as at 30 June 2020 and 31 December 2019 are trade in nature.

(c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Short term employee benefits	1,590	960
Post-employment benefits	23	42
Equity-settled share option expense	1,448	–
	3,061	1,002

The related party transactions in respect of items (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

22. SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Share Option Scheme include employees (whether full time or part-time) or directors of a member of the Group or associated companies of the Company, consultants, advisors, customers, suppliers, agents, partners or contractors to the Group. The Share Option Scheme became effective from 12 June 2019 and, unless otherwise cancelled or amended, will remain in force for 9.5 years from that date.

The following share options were outstanding under the Share Option Scheme of the Company during the period:

	Date of grant	Numbers of share options			At 30 June 2020	Exercise period (both dates inclusive)	Exercise price per share
		At 1 January 2020	Exercised during the period	Forfeited during the period			
(i)	12/06/2019	12,780,000	-	(330,000)	12,450,000	12/06/2020 – 11/12/2028	HK\$1.468
(ii)	12/06/2019	19,000,000	-	-	19,000,000	12/12/2019 – 11/12/2028	HK\$1.468
(iii)	12/06/2019	20,263,349	-	(2,111,520)	18,151,829	12/06/2019 – 11/12/2028	HK\$1.468
(iv)	12/06/2019	15,000,000	-	-	15,000,000	12/06/2020 – 11/12/2028	HK\$1.468
		67,043,349	-	(2,441,520)	64,601,829		

The Group recognised share option expenses of RMB8,969,000 in the six months ended 30 June 2020.

As at 30 June 2020, the Company had 64,601,829 share options outstanding under the Share Option Scheme.

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 30 June 2020 and 31 December 2019, the fair values of the Group’s financial assets or financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from a director and a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
As at 30 June 2020 (unaudited)			
Financial assets at fair value through profit or loss	–	55,000	–
As at 31 December 2019 (audited)			
Financial assets at fair value through profit or loss	–	–	–

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

24. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 were approved and authorised for issue by the board of directors of the Company on 27 August 2020.