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 2019

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GUI Changqing
Mr. ZHANG Zejun

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
Baidu International Building
No. 8 Haitian 1st Road
Binhai Community, Yuehei Street
Nanshan District
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33rd 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

Sidley Austin

COMPLIANCE ADVISOR

CMBC International Capital Limited

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

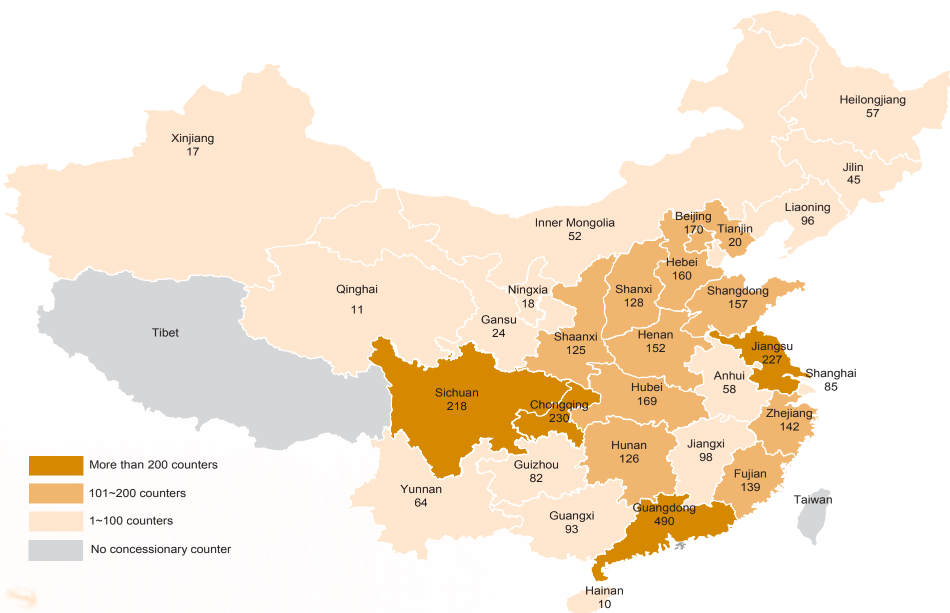
BUSINESS OVERVIEW

Natural Food International Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**"), is a well-recognised natural health food company in China. The Group continued to expand its business and dedicate to building China's most valuable natural health food brand. During the six months ended 30 June 2019 (the "**Period**"), the Group continued its efforts to achieve satisfactory revenue target. Revenue from the sales of the Group's products during the Period 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:



Management Discussion and Analysis

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%

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.

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.

Management Discussion and Analysis

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.

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			
	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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

Capital Structure

The company continued to maintain a healthy and sound financial position. The total assets of the Group decreased from RMB1,401,276,000 as at 31 December 2018 to RMB1,334,318,000 as at 30 June 2019, whilst the total liabilities changed from RMB328,451,000 as at 31 December 2018 to RMB235,353,000 as at 30 June 2019. Liabilities-to-assets ratio decreased from 23.4% to 17.6%.

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.

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 2019, 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 Securities and Futures Ordinance (Chapter. 571, Laws of Hong Kong) ("**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:

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)	42.00%
Ms. Gui Changqing (Note 2)	Beneficiary of trust	930,000,000 (L)	42.00%
Mr. Ng Benjamin Jin-Ping	Beneficial owner	2,000,000 (L)	0.09%

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, Ms. Gui (the wife of Mr. Zhang) and his children. Accordingly, each of Mr. Zhang, Ms. Gui, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital. Natural Capital pledged its 930,000,000 Shares held in the Company to CMBC International Holdings Limited as security for a term loan facility of US$40,000,000 provided to it by CMBC International Holdings Limited.

Save as disclosed above, as at 30 June 2019, 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 2019, 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)	42.00%
Paddy Aroma Investment Limited (Note 2)	Interest in a controlled corporation	930,000,000 (L)	42.00%
Natural Capital Holding Limited (Note 2)	Beneficial owner	930,000,000 (L)	42.00%
Yang Zhuo Ya (Note 3)	Beneficial owner	5,990,000 (L)	0.27%
Yang Zhuo Ya (Note 3)	Interest in controlled corporation	374,000,000 (L)	16.89%
Natural Investment Holding Limited (Note 3)	Beneficial owner	224,000,000 (L)	10.11%
Beadvance Investments Limited (Note 3)	Beneficial owner	150,000,000 (L)	6.77%
Andrew Y. Yan (Note 4)	Interest in controlled corporation	208,200,000 (L)	9.40%
SAIF III GP, L.P. (Note 4)	Interest of controlled corporation	208,200,000 (L)	9.40%
SAIF III GP Capital Ltd. (Note 4)	Interest of controlled corporation	208,200,000 (L)	9.40%

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
SAIF Partners III L.P. (Note 4)	Beneficial owner	208,200,000 (L)	9.40%
Xiao Shu (Note 5)	Interest in controlled corporation	111,000,000(L)	5.01%
Bright Natural Limited (Note 5)	Beneficial owner	111,000,000(L)	5.01%
China Minsheng Banking Corp. Ltd. (Note 6)	Interest in controlled corporation	1,086,000,000	44.03%
CMBC International Holdings Limited (Note 6)	Person having security interest in shares	1,086,000,000	44.03%

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, Ms. Gui (the wife of Mr. Zhang) and his children. Accordingly, each of Mr. Zhang, Ms. Gui, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital. Natural Capital pledged its 930,000,000 Shares held in the Company to CMBC International Holdings Limited as security for a term loan facility provided to it by CMBC International Holdings Limited.

(3) 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 224,000,000 Shares and 150,000,000 Shares, respectively. Accordingly, Mr. Yang Zhuoya is deemed to be interested in the 224,000,000 Shares held by Natural Investment Holding Limited and the 150,000,000 Shares held by Beadvance Investments Limited.

(4) Assuming the 2,082 Preferred Shares held by SAIF Partners III L.P. (the "**SAIF**") are converted into common shares of the Company on a one-for-ten thousand basis, after the conversion, SAIF shall hold 208,200,000 Shares. SAIF is a limited partnership fund established in the Cayman Islands whose sole general partner is SAIF III GP, L.P., a limited partnership established in the Cayman Islands. The sole general partner of SAIF III GP, L.P. is SAIF III GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands, which is wholly owned and controlled by Andrew Y. Yan.

(5) Mr. Xiao Shu holds the entire issued share capital of Bright Natural Limited, which in turn directly holds 111,000,000 Shares. Accordingly, Mr. Xiao Shu is deemed to be interested in the 111,000,000 Shares held by Bright Natural Limited.

(6) China Minsheng Banking Corp. Ltd. holds the entire issued share capital of CMBC International Holdings Limited. CMBC International Holdings Limited has a security interest in 930,000,000 Shares pledged in favour of it by Natural Capital, 45,000,000 Shares pledged in favour of it by Vision Legend Holdings Limited and 111,000,000 shares pledged in favour of it by Bright Natural Limited.

Corporate Governance and Other Information

Save as disclosed above, as at 30 June 2019, 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, 2019, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Group.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the six months ended 30 June 2019, 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 Highest	Price per Share Lowest	Aggregate price
		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 six months ended 30 June 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.

Corporate Governance and Other Information

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 2019.

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 2019.

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

As at 31 December 2018, 222,100,000 share options were outstanding. During the six months ended 30 June 2019, the Company granted 74,019,823 share options on 12 June 2019 at an exercise price of HK$1.468 per share and exerciseable from the 12 June 2019 to 11 December 2028 (both days inclusive). The closing price of the shares immediately before the date of grant of such Share Options was HK$1.450. Among the 74,019,823 Share Options granted, (i) 61,468,366 Share Options were granted to the employees of the Group, and (ii) 12,551,457 Share Options were granted to Directors (including the independent non-executive Director), chief executive and/or substantial shareholder (as defined in the Listing Rules) of the Company and directors of subsidiaries of the Company, details of which are set out as follows:

Name of grantee	Position in the Company	Number of Share Options
Gui Changqing	Chairman and executive Director	2,000,000
Zhang Zejun	Chief executive officer and executive Director	2,000,000
Zhang Senquan	Independent non-executive Director	2,000,000
Hu Peng	Independent non-executive Director	2,000,000
Ouyang Liangyi	Independent non-executive Director	2,000,000
Wang Jun	A director of certain subsidiaries of the Company	1,172,436
Gui Xuejun	A director of certain subsidiaries of the Company	1,279,021
Liao Longxiang	A director of certain subsidiaries of the Company	100,000

None of the grant of share options were subject to shareholders' approval. The Share Options granted shall vest in the proposed grantees in accordance with the timetable below:

(i) 13,860,000 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 June 2020 to 11 December 2028	100% of the total number of Share Options granted

(ii) 22,000,000 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 December 2019 to 11 December 2028	50% of the total number of Share Options granted
12 December 2020 to 11 December 2028	50% of the total number of Share Options granted

(iii) 23,159,823 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 June 2019 to 11 December 2028	40% of the total number of Share Options granted
12 June 2020 to 11 December 2028	30% of the total number of Share Options granted
12 June 2021 to 11 December 2028	30% of the total number of Share Options granted

(iv) 15,000,000 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 June 2020 to 11 December 2028	20% of the total number of Share Options granted
12 June 2021 to 11 December 2028	20% of the total number of Share Options granted
12 June 2022 to 11 December 2028	20% of the total number of Share Options granted
12 June 2023 to 11 December 2028	20% of the total number of Share Options granted
12 June 2024 to 11 December 2028	20% of the total number of Share Options granted

During the six months ended 30 June 2019, no share options had lapsed or had been exercised or cancelled. As at 30 June 2019, 148,080,177 share options were outstanding.

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.

EVENTS AFTER THE PERIOD

The Group has no significant subsequent events after 30 June 2019 which are required to be disclosed as at the date of this report.

Corporate Governance and Other Information

USE OF PROCEEDS FROM THE LISTING

Net proceeds from the global offering of the shares of the Company (the "**Global Offering**") 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 utilised as at 30 June 2019**	**Remaining balance as at 30 June 2019**
		(HK$ million)	
To further enhance the integrated distribution platform and optimise the 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 the 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

Note: The remaining proceeds are expected to be utilised during the period from 1 July 2019 to 31 December 2020, and is based on the Directors' best estimation of the future market conditions and thus subject to change.

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.

Corporate Governance and Other Information

CHANGES TO DIRECTORS' INFORMATION

Mr. Benjamin Jin-Ping Ng has ceased to be the non-executive Director of the Company with effect from 30 July 2019.

Save as disclosed above, the Directors confirm that no information is required to be disclosed pursuant to Rule 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 2019. The consolidated financial information for the six months ended 30 June 2019 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 23 to 54, 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 2019 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 other 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
29 August 2019

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

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June **2019** **RMB'000** **(Unaudited)**	 2018 RMB'000 (Unaudited)
REVENUE	5	**917,520**	851,022
Cost of sales		**(217,105)**	(197,229)
Gross profit		**700,415**	653,793
Other income and gains	5	**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	7	**(249)**	–
Loss on fair value changes of convertible and redeemable preferred shares		**–**	(20,091)
PROFIT BEFORE TAX	6	**119,050**	81,793
Income tax expense	8	**(13,711)**	(14,512)
PROFIT FOR THE PERIOD		**105,339**	67,281
Attributable to:			
Owners of the parent	10	**105,339**	67,281
Non-controlling interests		**–**	–
		105,339	67,281

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

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD		**105,339**	67,281
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)			
Basic	10	**0.05**	0.04
Diluted	10	**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	11	**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	12	**86,490**	122,286
Trade and bills receivables	13	**265,395**	239,602
Financial assets at fair value through profit or loss	14	**106,047**	71,400
Prepayments, deposits and other receivables	15	**70,690**	59,423
Amount due from a director	21	**163**	–
Amount due from a related party	21	**10,150**	9,375
Time deposit	16	**25,000**	25,000
Cash and cash equivalents	16	**425,902**	604,913
Total current assets		**989,837**	1,131,999
CURRENT LIABILITIES			
Trade payables	17	**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

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2019

	Notes	**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	18	**148**	149
Treasury shares	19	**(29,936)**	–
Other reserves		**1,128,753**	1,072,676
Non-controlling interests		**–**	–
Total equity		**1,098,965**	1,072,825

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 18)	Treasury shares RMB'000	Share premium RMB'000	Share option reserve RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total 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 RMB1,128,753,000 (31 December 2018: RMB1,072,676,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2019

	Attributable to owners of the parent						
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (audited)	106	365,289	(87,350)	5,388	24,566	49,077	357,076
Effects of adoption of HKFRS 9	–	–	–	–	–	(1,757)	(1,757)
At 1 January 2018 (restated) (audited)	106	365,289	(87,350)	5,388	24,566	47,320	355,319
Profit for the period	–	–	–	–	–	67,281	67,281
Exchange differences on translation of foreign operations	–	–	–	(1,260)	–	–	(1,260)
Translation from functional currency to presentation currency	–	–	–	(6,687)	–	–	(6,687)
Total comprehensive income for the period	–	–	–	(7,947)	–	67,281	59,334
Transfer to statutory reserve funds	–	–	–	–	7,766	(7,766)	–
Special dividend declared to shareholders	–	–	–	–	–	(220,071)	(220,071)
At 30 June 2018 (unaudited)	106	365,289	(87,350)	(2,559)	32,332	(113,236)	194,582

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**119,050**	81,793
Adjustments for:		
Bank interest income	**(879)**	(1,017)
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	**(375)**	(2,359)
Finance costs	**249**	–
Loss on fair value changes of convertible and redeemable preferred shares	**–**	20,091
Depreciation of property, plant and equipment	**13,890**	11,962
Depreciation of right-of-use assets	**1,646**	–
Amortisation of intangible assets	**301**	326
Amortisation of prepaid land lease payments	**–**	430
Impairment of trade receivables	**2,825**	194
Loss on disposal of items of property, plant and equipment	**–**	53
Equity-settled share option expenses	**5,297**	–
Unrealised exchange (gain)/loss	**(1,799)**	76
	138,758	111,549
Decrease in inventories	**35,796**	3,112
Increase in trade and bills receivables	**(28,618)**	(15,996)
(Increase)/decrease in prepayments, deposits and other receivables	**(13,483)**	19,547
Increase in an amount due from a director	**(163)**	–
(Increase)/decrease in amounts due from related parties	**(775)**	1,841
Decrease in trade payables	**(31,719)**	(16,698)
Increase/(decrease) in other payables and accruals	**(16,222)**	4,087
Decrease in amounts due to directors	**–**	(2,341)
Decrease in amounts due to related parties	**–**	(2,059)
Increase/(decrease) in contract liabilities	**(4,217)**	308
Decrease in deferred income	**(94)**	(94)
Cash generated from operations	**79,263**	103,256
Interest received	**879**	1,017
Income tax paid	**(7,595)**	(15,671)
Net cash flows from operating activities	**72,547**	88,602

Interim Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets measured at fair value through profit or loss	**(130,000)**	(370,200)
Proceeds from redemption of financial assets measured at fair value through profit or loss	**97,175**	449,559
Purchase of items of property, plant and equipment	**(65,510)**	(43,188)
Purchase of items of intangible assets	**–**	(129)
Proceeds from disposal of items of property, plant and equipment	**–**	12
Net cash flows (used in)/from investing activities	**(98,335)**	36,054
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank loans	**(69,567)**	–
Share issue expenses	**(590)**	–
Interest paid	**(144)**	–
Decrease in an amount due to a related party	**–**	(24,373)
Principal portion of lease payments	**(1,584)**	–
Share repurchase	**(39,220)**	–
Dividend paid	**(44,088)**	(7,433)
Net cash flows used in financing activities	**(155,193)**	(31,806)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(180,981)**	92,850
Cash and cash equivalents at beginning of period	**604,913**	227,119
Effect of foreign exchange rate changes, net	**1,970**	(1,090)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**425,902**	318,879
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**425,902**	318,879

Notes to the Condensed Consolidated Financial Statements

For the six months ended 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 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 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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

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	Lease liabilities
	RMB'000	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. 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.

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

The Group's customers primarily consist of individual customers. For the six months ended 30 June 2019 and 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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 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

5. REVENUE AND OTHER INCOME AND GAINS (Continued)

	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.

6. 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.

7. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interests on:		
Borrowing from a financial institution	**144**	–
Lease liabilities	**105**	–
	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 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.

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	
	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

9. 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.

10. 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 share options had an anti-dilutive effect on the basic earnings per share for the period ended 30 June 2019 and were ignored in the calculation of diluted earnings per share.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

(Continued)

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

Earnings	For the six months ended 30 June 2019 RMB'000	2018 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.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment at a cost of RMB13,670,000 (six months ended 30 June 2018: RMB17,611,000), and incurred construction in progress at a cost of RMB49,283,000 (six months ended 30 June 2018: RMB26,387,000).

12. INVENTORIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Raw materials	**19,410**	26,855
Work in progress	**1,435**	2,051
Finished goods	**55,704**	81,711
Consumables	**9,941**	11,669
	86,490	122,286

13. 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.

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 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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial asset at fair value through profit or loss	**106,047**	71,400
Unlisted investments:		
Investment funds, at fair value	**72,847**	71,400
Wealth management products, at fair value	**33,200**	–
	106,047	71,400

As at 30 June 2019, the Group had wealth management products, denominated in RMB, with expected rates of return ranging from 1.60% to 3.60% per annum and maturity periods ranging from 1 day to 35 days.

As at 30 June 2019 and 31 December 2018, the Group had investment funds denominated in RMB, with expected rates of return of 3.6% per annum and maturity periods of 3 months. The fair values of the wealth management products and investment funds approximate to their carrying values.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Prepayments	**18,857**	16,754
Deposits	**4,670**	4,657
Value-added tax recoverable	**12,964**	14,401
Employee advances	**15,777**	7,982
Other receivables	**18,422**	14,769
Current portion of prepaid land lease payments	**–**	860
	70,690	59,423

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.

16. CASH AND CASH EQUIVALENTS AND TIME DEPOSIT

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cash and bank balances	**425,902**	604,913
Time deposit	**25,000**	25,000
	450,902	629,913
Less: Time deposit	**(25,000)**	(25,000)
Cash and cash equivalents	**425,902**	604,913
Denominated in:		
– RMB	**276,413**	252,806
– HK$	**174,489**	377,107
	450,902	629,913

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 one year 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.

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 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.

18. SHARE CAPITAL

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Issued and fully paid:		
2,214,198,000 (2018: 2,221,000,000) ordinary shares	**148**	149

19. TREASURY SHARES

The Company repurchased a total of 29,000,000 of its shares ranging from HK$1.40 to HK$1.65 per share on the Hong Kong Stock Exchange for a total consideration of RMB39,220,000 during the period. 6,802,000 shares repurchased were cancelled during the period. The remaining 22,198,000 shares repurchased had not been cancelled on 30 June 2019.

20. COMMITMENTS

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Capital commitments	**69,849**	104,034

As at 30 June 2019 and 31 December 2018, the amounts of capital commitments were related to the purchase of intangible assets and 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:

(1) Sales of goods to a related party:

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Shenzhen Jingya Natural Food Science and Technology Co., Ltd. ("Shenzhen Jingya")	**675**	1,387

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 2019 and 2018.

21. RELATED PARTY TRANSACTIONS (Continued)

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

(2) Services from a related party:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Guangxi Guiping Jingui Human Resources Co Ltd. ("Guiping Jingui")	**–**	64,304

The Group received labour services from Guiping Jingui pursuant to the terms negotiated between the Group and Guiping Jingui. Ms. Yang Chunping, the sister-in-law of Mr.Yang Zhuoya, a former director of the Company, was the shareholder of Guiping Jingui during the period from 16 May 2014 to 8 June 2018.

(3) Interest income from a related party:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Mr. Yang Changya	**–**	63

Mr. Yang Changya is the brother of Mr. Yang Zhuoya, a former director of the Company. The interest income was from a loan to Mr. Yang Changya with the principal amount of RMB3,000,000 and interest rate of 5% per year. The loan was fully repaid in May 2018.

(b) Other transactions with directors

For the six months ended 30 June 2019 and 2018, the Group has entered into an intellectual property licence agreement with Ms. Gui Changqing, a director of the Company. Pursuant to the agreement, Ms. Gui Changqing had granted to the Group and its subsidiaries existing as at the date of the agreement an exclusive licence to use six trademarks. These trademarks were licensed to the Group and its subsidiaries on a royalty-free basis until the date of expiry of registration of such trademarks.

21. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties

(1) Amount due from a director:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Mr. Zhang Zejun	**163**	–

The balance is non-interest-bearing.

(2) Amount due from a related party:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Shenzhen Jingya	**10,150**	9,375

The balance of Shenzhen Jingya is unsecured, interest-free and repayable on demand. The balances as at 30 June 2019 and 31 December 2018 are trade in nature.

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

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Short term employee benefits	**960**	889
Post-employment benefits	**42**	52
	1,002	941

The related party transactions in respect of items (a)(1) and (b) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

		Numbers of share options					
	Date of grant	At 1 January 2019	Granted during the period	Forfeited during the period	At 30 June 2019	Exercise period (both dates inclusive)	Exercise price per share
(i)	12/06/2019	–	13,860,000	(110,000)	13,750,000	12/06/2020 – 11/12/2028	HK$1.468
(ii)	12/06/2019	–	22,000,000	–	22,000,000	12/12/2019 – 11/12/2028	HK$1.468
(iii)	12/06/2019	–	23,159,823	–	23,159,823	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
		–	74,019,823	(110,000)	73,909,823		

The Group recognised share option expenses of RMB5,297,000 in the six months ended 30 June 2019.

As at 30 June 2019, the Company had 73,909,823 share options outstanding under the Share Option Scheme.

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 30 June 2019 and 31 December 2018, 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, dividend payable, amounts due from a director and a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

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 2019 (unaudited)			
Financial assets at fair value through profit or loss	**–**	**106,047**	**–**
As at 31 December 2018 (audited)			
Financial assets at fair value through profit or loss	–	71,400	–

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 2019 were approved and authorised for issue by the board of directors of the Company on 29 August 2019.