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

Annual Report 2019

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GUI Changqing
Mr. ZHANG Zejun

Non-executive Directors

Ms. TSE Cheung On Anne
(Appointed on 30 September 2019)
Mr. WANG Duo (Appointed on 30 September 2019)
Mr. NG Benjamin Jin-Ping (Resigned on 30 July 2019)

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

HONG KONG LEGAL ADVISOR

Wilson Sonsini Goodrich & Rosati

COMPLIANCE ADVISOR

CMBC International Capital Limited

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

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

Corporate Information

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

PRINCIPAL BANKERS

China Merchants Bank
Ping An Bank
Bank of Communications

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Natural Food International Holding Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2019 (the "Reporting Period").

BUSINESS REVIEW

In 2019, the Group's business was mainly focused on the proactive adjustment to the development schedule to prepare itself for the improvement in the sales efficiency of various sales channels, the continuous enrichment of product mix, the development of products with promising potential, the continuous optimization and improvement of the internal incentive mechanism as well as the exploration of new ideas for brand building. All these efforts served to lay a solid ground for the long term development of the Company.

Regarding offline channels, during the Reporting Period, we newly opened 462 concessionary counters and operated 3,399 concessionary counters in 289 cities across 30 provinces or municipalities in China for the provision of natural, healthy, additive-free and quality products to the consumers. Our nutrition consultants also provided caring and professional consultation service to the consumers through the year. As at the end of 2019, we had more than 24 million registered members.

In respect of the e-commerce platform, we provided consumers with products different from offline channels on Tmall, JD.com, VIP.com and other platforms to satisfy consumers' different health needs with an enriched product matrix. We have achieved the largest GMV for Alibaba's Singles' Day promotion among instant mixture products for three consecutive years.

In respect of the self-operated WeChat member store, we have been striving to develop it into a "healthy lifestyle platform" to continuously provide consumers with useful health consultation and products. As at the end of 2019, we have attracted approximately 7.8 million followers who are active in WeChat member store and WeChat official accounts.

While continuing to upgrade and improve our core category of natural mixed grain breakfast powder, we focused on the development of a variety of convenient healthy food products of high-end fruit oatmeal and snacks for easy carrying and consumption, including rainbow crisp, black sesame pellets, red bean and pearl barley pellets, which were well received by consumers.

FINANCIAL REVIEW

As at 31 December 2019, the Group recorded a revenue of RMB1,784.1 million, representing a year-on-year decrease of 1.9%. The decrease in revenue was mainly due to the proactive adjustment to the development schedule, pursuant to which, 958 concessionary counters which did not meet the Company's expectation were closed during the Reporting Period. During the Reporting Period, the Group recorded a net profit of RMB126.3 million, representing a year-on-year increase of 20%.

Chairman's Statement

FUTURE PROSPECTS

At the beginning of 2020, the outbreak of COVID-19 epidemic in Wuhan City, Hebei province rapidly spread within China. For the prevention of further spreading of the epidemic, the central and local governments resolutely introduced various stringent precautionary measures, and a number of provinces and municipalities in China activated level I – the highest level – response to major public health emergencies. Such precautionary measures aimed at reducing human-to-human contract, thus severely impacting pedestrian traffic and people going outdoor as well as the traffic and transportation, including logistics. This led to an inevitable slowdown in national economic activities. It is expected that the operation of the Group for the first half of 2020 will be significantly impacted. Nevertheless, benefiting from the growing purchasing power and rising health awareness of consumers in China, we remain full of confidence about the future. After years of profound effort and refinement, a solid trust in our product quality and brand name from our customers has been built. The trust in us from customers was constantly seen throughout the epidemic. Boasting our extensive experience accumulated in the natural health food segment for more than a decade, we are confident to maintain and strengthen its leading market position as a well-recognised natural health food company in China and create an even higher long-term value for our shareholders. Therefore, the Group implemented the following strategies:

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

APPRECIATION

I would like to take this opportunity to thank our staff, consumers, shareholders and business partners for their unswerving support. We also look forward to continuing to work closely together in the future.

GUI Changqing
Chairman
30 March 2020

Management Discussion and Analysis

BUSINESS REVIEW

In 2019, the Group's business was mainly focused on the proactive adjustment to the development schedule to prepare itself for the improvement in the sales efficiency of various sales channels, the continuous enrichment of product mix, the development of products with promising potential and the continuous optimization and improvement of the internal incentive mechanism. All these efforts served to lay a solid ground for the long term development of the Company. As at 31 December 2019, the Group recorded a revenue of RMB1,784.1 million, representing a year-on-year decrease of 1.9%. The Group recorded a net profit of RMB126.3 million, representing a year-on-year increase of 20%.

The decrease in revenue was mainly due to the proactive adjustment to the development schedule, pursuant to which, 958 concessionary counters which did not meet the Company's expectation were closed during the year ended 31 December 2019.

PRODUCTS

In 2019, the Group continued to develop the natural mixed grain powder products as its key category and consistently improved the formula and upgraded the packaging of existing key products, with a view to consolidating the market leading position of its key products. At the same time, in order to meet consumers' demand for healthy food under different consumption scenarios, the Group took the lead to introduce and develop new product categories, aiming to provide consumers with natural, healthy, additive-free, delicious and convenient products.

Management Discussion and Analysis

In 2019, "Eight Treasure" probiotics & grains powder（益生元八珍粉）, one of the Company's key products, collaborated with Beijing Meiweifengyun Culture Development Co., Ltd.（北京美味風雲文化發展有限公司）to launch the forbidden city co-branded product featuring "palace healthcare". In addition, after extensive market research, the Group has developed a variety of convenient healthy food products for easy carrying and consumption, and launched different types of high-end fruit oatmeal and snacks, including rainbow crisp, black sesame pellets, red bean and pearl barley pellets, which were well received by consumers.

OFFLINE CHANNELS

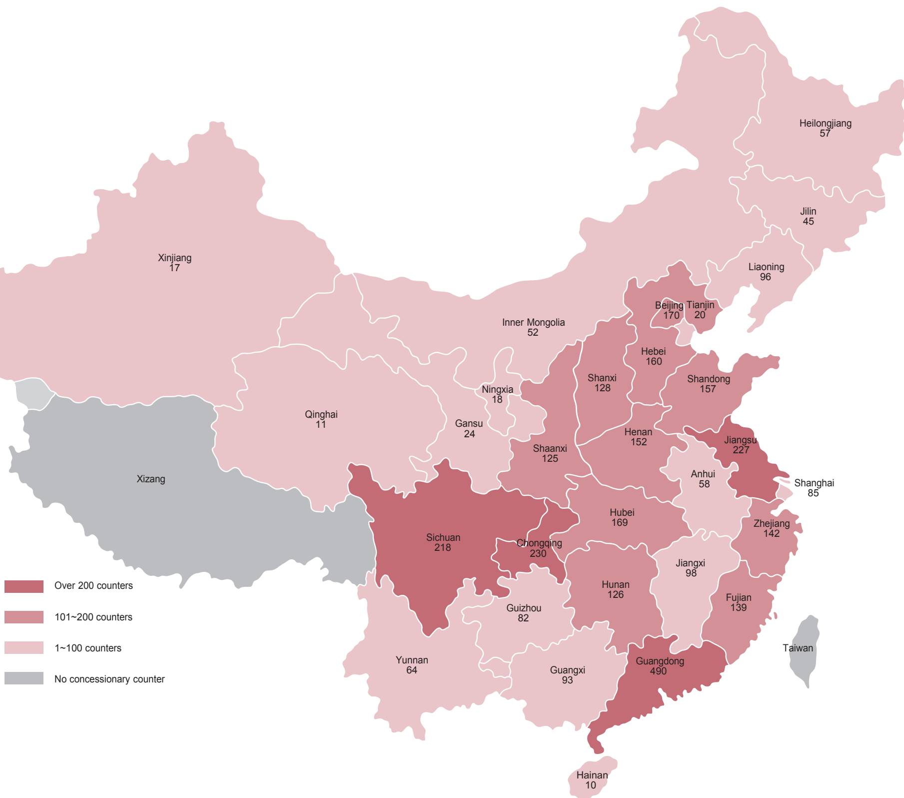
The Group has focused its business development in China for more than a decade and has established a nationwide sales network. As at 31 December 2019, the Group operated 3,399 concessionary counters in 289 cities across 30 provinces and municipalities in China. During the reporting period, the Group newly opened 462 concessionary counters with growth potential. Meanwhile, in order to enhance the sales efficiency of offline sales channels and stimulate the sales momentum of individual concessionary counters, the Group proactively closed a total of 958 concessionary counters which did not meet the Company's expectation during the reporting period, of which 650 were closed in the first half of 2019 and 308 were closed in the second half of 2019. Although the closure of concessionary counters reduced the Group's offline sales revenue, the Group is of the view that the closure of these concessionary counters will benefit the long-term and efficient development of offline sales channels.

As at 31 December 2019, sales from offline concessionary counters amounted to RMB1,362.5 million, representing a decrease of 7.9% as compared to that in the same period in 2018.

In addition, offline sales channels, as an important brand promotion window of the Company, continued to attract registered members to the Group. As at 31 December 2019, the Group has attracted approximately 25 million registered members.

Management Discussion and Analysis

The following map shows the geographical distribution of our concessionary counters in China as at 31 December 2019:



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

	Year ended 31 December	
	2019	2018
At the beginning of the year	**3,895**	3,690
Add: newly opened counters	**462**	851
Less: closed counters	**958**	646
Total concessionary counters	**3,399**	3,895

Management Discussion and Analysis

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 years ended 31 December 2018 and 2019 respectively:

	As at 31 December			
	2019	**%**	2018	%
Eastern China [(1)]	**1,070**	**31.5%**	1,226	31.5%
Southern China [(2)]	**667**	**19.6%**	826	21.2%
Northern China [(3)]	**692**	**20.4%**	806	20.7%
Southwest China [(4)]	**590**	**17.4%**	634	16.3%
Northwest China [(5)]	**380**	**11.2%**	403	10.3%
Total number of counters	**3,399**	**100.0%**	3,895	100.0%

Notes:

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

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

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

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

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

ONLINE CHANNELS

In 2019, the Group continued to expand the share of sales through online channels, including the e-commerce platform and the self-operated WeChat member store. As at 31 December 2019, the sales of online channels amounted to RMB421.6 million, representing an increase of 24.2% as compared with that in the same period of 2018. The proportion of online channel sales to total revenue increased to approximately 23.6% (2018: 18.7%).

In respect of the e-commerce platform, the Group continued to provide consumers with an enriched portfolio of health food on Tmall, JD.com, VIP.com and other platforms on the one hand, and enhance consumer experience with excellent services on the other hand. The Group formulated specific marketing plans according to different festivals and promotional events. During key promotion periods, such as "618" and "Singles' Day", the Group has achieved satisfactory performance, and has achieved the largest GMV for Alibaba's Singles' Day promotion among instant mixture products for three consecutive years.

Management Discussion and Analysis

As at 31 December 2019, sales on e-commerce platforms amounted to RMB322 million, representing an increase of 34.6% as compared to that in the same period of 2018.

In respect of the self-operated WeChat member store, the Group has been striving to develop it into a "healthy lifestyle platform" to continuously provide consumers with useful health consultation and products. As a result, the Group has accumulated a large number of WeChat followers who are active in WeChat member store and WeChat official accounts. As at 31 December 2019, the Group has attracted approximately 7.8 million followers (2018: 6.9 million). However, WeChat has adjusted the platform policy since the beginning of 2019, which limited the tools for the Group to access consumers. As a result, sales of our self-operated WeChat member store amounted to RMB99.6 million as at 31 December 2019, representing a decrease of 0.6% as compared to the same period in 2018.

PRODUCTION CAPACITY

In view of the increasing demand for natural health food in China, the Group commenced the construction of a new manufacturing base in Nansha District, Guangzhou, China in March 2018. The new production base has a gross floor area of 60,000 sq.m.. The acceptance of main and ancillary works is expected to be completed by the end of 2020. Upon completion and full operation of the new manufacturing base, it is expected that the maximum production capacity of the Group will be increased to 40,000 tonnes per annum.

OPTIMIZATION OF SHAREHOLDING STRUCTURE

On 26 July 2019, PepsiCo, Inc., a renowned international food and beverage giant, purchased a total of 566,506,000 ordinary shares in the Company at HK$1.80 per share, representing approximately 25.84% of the total issued shares of the Company as at 25 July 2019, and became the second largest shareholder of the Company. The transaction is the first strategic investment made by PepsiCo, Inc. in China.

OUTLOOK

Benefiting from the increasing purchasing power and health awareness of consumers in China, the Group is confident in the future. The Group will maintain and strengthen its leading market position as a well-known natural health food company in China, and therefore implement the following strategies:

- Continue to optimize the product mix, develop new core powder products and make every endeavour to develop new product categories with promising potential;
- Continue to strengthen existing sales channels and take the lead to explore new channels;
- Continue to strengthen the management of followers; and
- Focus on marketing and promotional 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 stores. 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 years indicate:

	For the year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Offline channels	**1,362,482**	**76.4**	1,478,666	81.3
Online channels	**421,604**	**23.6**	339,400	18.7
E-commerce platforms	**321,987**	**18.0**	239,191	13.2
WeChat member store	**99,617**	**5.6**	100,209	5.5
Total	**1,784,086**	**100.0**	1,818,066	100.0

For the year ended 31 December 2019, absolute amounts of revenue generated from sales through its offline and online channels decreased as compared to those in the year ended 31 December 2018. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased from 81.3% in 2018 to 76.4% in 2019, while revenue generated from sales through online channels increased from 18.7% in 2018 to 23.6% in 2019.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 8.8% from RMB427.4 million for the year ended 31 December 2018 to RMB464.9 million for the year ended 31 December 2019, which was mainly attributable to the (i) increase in the purchase price of raw materials, which led to an increase in raw material costs, (ii) increase in overall labor costs, which directly led to an increase in direct labor costs, and (iii) increase in the packaging material costs, which was due to the increase in the online sales where additional packaging materials were applied as compared with the offline sales. Gross profit for the Group decreased from approximately RMB1,390.7 million for the year ended 31 December 2018 to approximately RMB1,319.2 million for the year ended 31 December 2019. The gross profit margin decreased from 76.5% for the year ended 31 December 2018 to 73.9% for the year ended 31 December 2019.

Management Discussion and Analysis

Other Income and Gains

Other income and gains of the Group increased by RMB0.9 million from approximately RMB22.0 million for the year ended 31 December 2018 to approximately RMB22.9 million for the year ended 31 December 2019, which was mainly attributable to (i) an increase in government grants, (ii) an increase in agency commission, and (iii) a decrease in interest income derived from financial assets at fair value through profit or loss, as the Company reduced its holding of financial products during 2019 and has a nil balance as of 31 December 2019.

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 RMB1,070.9 million for the year ended 31 December 2018 to approximately RMB1,092.4 million for the year ended 31 December 2019, which was mainly attributable to (i) an increase in sales promotion expenses, which was mainly due to more advertising was placed for our brand promotion, (ii) an increase in the share based payment expenses, which was primarily due to the grant of the share option during the year, (iii) an increase in the commission expenses, and (iv) a decrease in the labor service expense of salesman, which was due to the downward adjustment in the number of directly operated concessionary counters in the offline channels, which resulted less hired sales personnel for the year ended 31 December 2019.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, office expenses, travel and communication expense, depreciation and amortisation and others. The administrative expenses decreased from approximately RMB133.2 million for the year ended 31 December 2018 to approximately RMB102.9 million for the year ended 31 December 2019. The decrease was mainly due to a decrease in the listing expenses, since all listing related expenses have been recorded for the year ended 31 December 2018.

Impairment Losses on Financial Assets

Impairment loss on financial assets increased to approximately RMB4.6 million for the year ended 31 December 2019 from approximately RMB3.2 million for the year ended 31 December 2018, which was mainly attributable to the impairment losses on financial assets as a result of an increased overdue trade and bills receivables balance.

Other Expenses

Other expenses of the Group decreased to approximately RMB1.3 million for the year ended 31 December 2019 from approximately RMB1.5 million for the year ended 31 December 2018 primarily due to the decrease in the loss on disposal of property, plant and equipment.

Management Discussion and Analysis

Finance Costs

For the year ended 31 December 2019, the Group's finance costs increased from approximately RMB0.4 million for the year ended 31 December 2018 to approximately RMB0.8 million primarily due to the adoption of HKFRS16, which resulted in an increase of lease finance costs.

Loss on Fair Value Changes of Convertible and Redeemable Preferred Shares

The loss on fair value changes of convertible and redeemable preferred shares was decreased from RMB75.7 million for the year ended 31 December 2018 to nil for the year ended 31 December 2019, which was primarily due to the full conversion of the convertible and redeemable preferred shares in 2018.

Profit before Tax

As a result of the foregoing, the profit before tax of the Group increased by 9.7% from approximately RMB127.6 million for the year ended 31 December 2018 to approximately RMB140.1 million for the year ended 31 December 2019.

Income Tax Expense

The Group's income tax expense decreased by 38.7% from RMB22.4 million for the year ended 31 December 2018 to RMB13.7 million for the year ended 31 December 2019, primarily due to the decrease of assessable profit, which was attributed to no listing expense incurred and no loss on fair value changes of convertible and redeemable preferred shares for the year ended 31 December 2019. For the same reason, the Group's effective tax rate decreased from 17.5% for the year ended 31 December 2018 to 9.8% for the year ended 31 December 2019. The Group's effective tax rates for both years 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 Year

Profit of the Group for the year ended 31 December 2019 increased by 20% from approximately RMB105.2 million for the year ended 31 December 2018 to approximately RMB126.3 million.

Management Discussion and Analysis

FINANCIAL RESOURCES REVIEW

Working Capital and Financial Resources

	As at 31 December 2019 (RMB million)	As at 31 December 2018 (RMB million)
Trade and bills receivables	**225.6**	239.6
Trade payables	**63.3**	72.1
Inventories	**114.0**	122.3
Trade receivables turnover days[(1)]	**48**	42
Trade payables turnover days[(2)]	**53**	61
Inventory turnover days[(3)]	**93**	87

Notes:

(1) Trade receivables turnover days = 365 days x (average balance of trade and bills receivables at the beginning and at the end of the relevant period)/revenue in the reporting period.

(2) Trade payables turnover days = 365 days x (average balance of the trade payables at the beginning and at the end of the relevant period)/cost of sales in the reporting period.

(3) Inventory turnover days = 365 days x (average balance of inventory at the beginning and at the end of the relevant period)/ cost of sales in the reporting period.

The decrease of trade and bills receivables was primarily attributable to an decrease in the sales of the products, accompanied by an increase in provision for impairment of trade and bills receivables amounted to approximately RMB4.6 million, which was attributable to the increased overdue trade and bills receivables balance. The increase of trade receivables turnover days were mainly attributable to an extended credit period provided by the Group to certain customers.

The decrease of trade payables was primarily attributable to the early settlement of trade payables made by the Group to certain suppliers immediate before 31 December 2019. The decrease of trade payables turnover days were mainly attributable to shorter credit period granted by its suppliers.

The decrease of inventories was mainly attributable to an decrease in raw materials and finished goods in line with the sales decline as a result of the adjusted sales network and in anticipation of the decreasing sales volume during the festive season. The increase in inventory turnover days is primarily attributable to the revenue for the year ended 31 December 2019 did not meet the expectation.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB558.0 million, representing a decrease of approximately 7.8% 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 and construction of the new manufacturing facility in Nansha County, Guangzhou, loan repayment, share repurchase and dividend paid. The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 31 December 2019, the Group had no interest-bearing borrowings (31 December 2018: RMB70.1 million).

Net cash flows from operating activities were RMB171.6 million in 2019, as compared with net cash flows from operating activities of RMB133.7 million in 2018. Net cash flows used in investing activities were RMB19.3 million in 2019, as compared with net cash flows used in investing activities of RMB107.4 million in 2018. Net cash flows used in financing activities were RMB204.6 million in 2019, as compared with net cash flows from financing activities of RMB350.8 million in 2018.

As at 31 December 2019, the Group had net current asset of RMB730.0 million, as compared with net current asset of RMB808.2 million as at 31 December 2018.

Capital Commitments

As at 31 December 2019, the Group had contracted but not provided for capital commitments of approximately RMB36.6 million, which were primarily relating to the purchase of property, plant and equipment to be used for the construction of the new manufacturing facility in Nansha County, Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB104.0 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 the exchange rate between HK$ and RMB and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

Contingent Liabilities

As at 31 December 2019, the Group had no contingent liabilities.

Management Discussion and Analysis

Pledge of Assets

As at 31 December 2019, the Group did not pledge any assets.

Gearing Ratio

As at 31 December 2019, the Group's gearing ratio (calculated by dividing total debt (including interest-bearing borrowing and lease liabilities) by total assets as of the end of each year) was approximately 1.6% (31 December 2018: 5.0%).

Employees and Remuneration Policy

As at 31 December 2019, the Group had 838 employees, as compared with 1,007 employees as at 31 December 2018. For the year ended 31 December 2019, costs of employees, excluding Directors' emoluments, amounted to a total of RMB201.5 million, representing an increase of approximately 5.5% from RMB190.9 million 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's emolument policies of the employees are formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company (the "**Remuneration Committee**"), who are authorised by the shareholders of the Company in the annual general meeting (the "**AGM**"), having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme will be set out in the "Directors' Report" section of the annual report of the Company for the year ended 31 December 2019.

Directors and Senior Management

DIRECTORS

Executive Directors

Ms. GUI Changqing（**桂常青**）, aged 47, is the Chairman of the Board and an executive Director of the Company. Ms. Gui was appointed as a Director on 30 November 2009. She also serves as a director and/or the general manager of each of the wholly-owned subsidiaries of the Group, Natural Food HK, Natural Food Online Limited（天然食品線上有限公司）, Shenzhen Fuya and Guangzhou Natural Food. She is responsible for formulating and overseeing the overall development strategies and business plans of the Group and has continued to provide guidance on the range and variety of products offered by the Group since its establishment. She graduated from Hubei Institute of Industry（湖北工學院, now known as Hubei University of Technology（湖北工業大學））with a bachelor's degree in industrial design in June 1995. She further completed her studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen（深圳清華大學研究院）in December 2015. She is the wife of Mr. ZHANG Zejun, the Founder, the Chief Executive Officer and an executive Director of the Company.

Mr. ZHANG Zejun（**張澤軍**）, aged 46, is the Founder, a Controlling Shareholder, the Chief Executive Officer of the Group and an executive Director of the Company. He was appointed as a Director on 29 January 2010. Mr. Zhang is also the general manager of each of the major wholly-owned operating subsidiaries of the Group, namely Shenzhen Changqing Food Tech Co., Ltd.（深圳常青食品科技有限公司）and Shenzhen Natural Food Co., Ltd.（深圳天然食品貿易有限公司）, and a supervisor of another wholly-owned subsidiary of the Group, Shenzhen Xiangya. He has over 10 years of experiences in the natural health food industry. Mr. Zhang founded the business in 2007 and has been the key driver of the business strategies and achievements to date. He is primarily responsible for implementing and overseeing the overall business development, management and operations of the Group. He completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen（深圳清華大學研究院）in December 2015. He is the husband of Ms. GUI Changqing, the Chairman and an executive Director of our Company.

Non-executive Director

Ms. Tse Cheung On Anne（**謝長安**）, aged 43, currently acts as SVP and General Manager of Foods in the Great China Region of PepsiCo., Inc., a company listed on the NASDAQ (stock code: PEP) since October 2016 and Outside Director of Calbee, Inc., a company listed on the Tokyo Stock Exchange (stock code: 2229). She joined Pepsi in October 2010 and successively served as Senior Director of Strategy in the Greater China Region, General Manager of New Business in the Greater China Region and VP of e-Commerce in the Greater China and Asia, Middle East and North Africa. Prior to joining Pepsi, she served as CEO of Mannings China from March 2008 to March 2010, and Associate Principal at McKinsey & Company from 1998 to 2008 respectively. She obtained her Bachelor of Business Administration degree in Finance from the Chinese University of Hong Kong in June 1998, and her Master of Business Administration degree in Finance and Marketing from Kellogg School of Management at Northwestern University in the United States in June 2003.

Directors and Senior Management

Mr. Wang Duo（王鐸）, aged 40, is the founding partner of Mangrove Capital, a fund headquartered in the PRC which focuses on the growth stage investment in leading companies in cloud computing, big data, enterprise services, financial technology, and internet information. Prior to founding Mangrove Capital in 2016, he was a partner of SAIF Partners, a technology, media and telecommunications venture capital fund, from 2006 to 2016, and a senior investment manager at ZTE Corporation, a telecom equipment and solutions provider, from 2004 to 2006. He has been a chartered financial analyst since 2005 and he is one of the founding members of the CFA Society Beijing, a member of the CFA Institute global network of societies. He was also named as a Top 40 under 40 investor in 2014 by Cyzone, a venture capital media in the PRC. He obtained a bachelor's degree in commerce and information systems from the University of Melbourne in Australia in 2001. He is also currently serving as a non-executive director of Ozner Water International Holding Limited, a company listed on the Stock Exchange (stock code: 2014).

Independent non-executive Directors

Mr. Zhang Senquan（張森泉）, formerly known as Zhang Min（張敏）, aged 43, was appointed as the independent non-executive Director on 19 November 2018 and is responsible for supervising and providing independent advice and judgment to the board. He received his bachelor's degree in economics from Fudan University in July 1999. He is a member of Hong Kong Institute of Certified Public Accountants, China Institute of Certified Public Accountants and American Institute of Certified Public Accountants, and has more than 10 years of experience in accounting and auditing. Mr. Zhang Senquan worked at Ernst & Young, KPMG and Deloitte Touche Tohmatsu serving several positions from audit staff to audit partner from October 1999 to October 2012. Mr. Zhang currently is an independent non-executive director of Jiande International Holdings Limited, a company listed on the Stock Exchange (stock code: 865); an independent non-executive director of Beijing Digital Telecom Co., Ltd., a company listed on the Stock Exchange (stock code: 6188); an independent non-executive director of Bonny International Holding Limited, a company listed on the Stock Exchange (stock code: 1906); an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd.（江蘇艾迪藥業股份有限公司）; and an independent non-executive director of Sang Hing Holdings (International) Ltd., a company listed on the Stock Exchange (stock code: 1472). Currently, Mr. Zhang is also the chief executive officer of Zhong Rui Capital (Hong Kong) Limited, a consultancy company, and serves as the company secretary of Pengrun Holding Limited（鵬潤控股有限公司）since February 2020 and the company secretary of Kunda Mining Holdings Company Limited（坤達礦業控股有限公司）since March 2020. Mr. Zhang was the head of the Strategic Development Department of Goodbaby International Holdings Limited, a company listed on the Stock Exchange (stock code: 1086), from March 2013 to April 2014; the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited, a company listed on the Stock Exchange (stock code: 6830), from May 2014 to July 2015; an independent director of Topchoice Medical Investment Co. Inc., a company listed on the Shanghai Stock Exchange (stock code: 600763), from December 2014 to March 2017, an independent non-executive director of Casablanca Group Limited, a company listed on the Stock Exchange (stock code: 2223), from April 2015 to April 2018; and the managing director of Southwest Securities International Securities Limited, a company listed on the Stock Exchange (stock code: 812), from February 2016 to March 2020.

Directors and Senior Management

Mr. HU Peng（胡芃）, aged 44, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. He served as the head of equity capital markets, a managing Director and a management committee member of Huatai Financial Holdings (Hong Kong) Ltd., a wholly-owned subsidiary of Huatai Securities Co., Ltd. from October 2015 to June 2018, the shares of which are listed on the Stock Exchange (stock code: 6886) ("**Huatai**"). Prior to joining Huatai in October 2015, he worked in the investment banking division of UBS AG from July 2010 to September 2015 and of Citigroup Global Market Asia Limited from February 2007 to July 2010. Before his career in Citigroup, He was primarily engaged in theoretical and empirical research in the areas of credit risk, close-end fund, Chinese capital markets and restructuring of state-owned enterprise, with extensive experience in both strategic analysis and marketing consulting. He was approved as a responsible officer under the SFO and was licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO during the time working at Huatai, Investment Banking Division of UBS AG and Citigroup Global Market Asia Limited. He obtained each his Master of Science degree in Operations Research and Management Science, Masters by Research in Business Studies and PhD degree from the University of Edinburgh in the United Kingdom in December 1998, July 2000 and June 2008, respectively.

Mr. OUYANG Liangyi（歐陽良宜）, aged 42, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. He currently serves as an Associate Professor of Finance at Peking University HSBC Business School since August 2013 and has become the Associate Dean in March 2013 and subsequently the Deputy Dean in November 2017. He was a lecturer and an Associate Professor of the School of Economics at Peking University from September 2004 to August 2009 and from then till July 2013, respectively, with a focus on private equity and derivatives. He obtained his bachelor's degree in economics from Peking University in July 1999 and PhD in Finance from The University of Hong Kong in December 2005. He has been a Chartered Financial Analyst since 2006.

SENIOR MANAGEMENT

Mr. PENG Dubiao（彭督彪）, aged 46, is a General Manager of Offline Sales of the Group. He joined the Group in September 2011 and is responsible for formulating and implementing offline sales strategies and channel management and management of the sales team. He also serves as the general manager of the wholly-owned subsidiary of the Group, Shenzhen Xiangya. Mr. Peng has 20 years of experience in the food and beverage industry. Prior to joining the Group, Mr. Peng worked at a number of private food and beverage companies in China, including Po-Li Food Industry (Kunshan) Co., Ltd.（波力食品工業（昆山）有限公司）, Shanghai Zhenghe Food Co., Ltd.（上海正禾食品有限公司）and Fujian Fuma Food Group Co. Ltd.（福建福馬咪咪食品集團有限公司）during May 1998 to August 2011 where he primarily worked in and/or headed the sales and marketing department of these food companies. He obtained his online bachelor's degree in international trade from the University of International Business and Economics（對外經貿大學）in January 2010 in the PRC. He further completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen（深圳清華大學研究院）in December 2015.

Directors and Senior Management

Mr. CHEN Guanghua（**陳光華**）, aged 45, is a Strategy Consultant of Digital Marketing and Online Sales of the Group. He joined the Group in July 2015 and is responsible for providing and implementing digital marketing strategies and management of online channels and members relationship strategy. He also serves as the general manager of the wholly-owned subsidiary of the Group, Shenzhen Fuya. He has 20 years of working experience in in the field of information technology. He worked with Biostime from March 2008 to June 2015, where he last held the position of Chief Operating Officer in charge of the Mama100 Membership Center of Biostime. From January 1999 to February 2008, he was employed by Guangzhou Tianjian Computer System Engineering Co., Ltd.（廣州天劍計算機系統工程有限公司）and assumed positions including software engineer, CRM department manager and deputy general manager, respectively. Prior to that, he worked with Guangdong Fotao Group Co., Ltd.（廣東佛陶集團股份有限公司）from July 1997 to January 1999. Mr. Chen won the "Science and Technology Award of Foshan"（佛山市科學技術進步獎）awarded by Foshan Municipal Government in June 2006 and the "Science and Technology Award of Guangzhou"（廣州市科學技術獎）awarded by Guangzhou Municipal Government in October 2006. In July 1997, He graduated from Tongji University（同濟大學）and obtained a bachelor's degree in silicate science and engineering. In December 2004, he obtained a master's degree in computer technology from South China University of Technology（華南理工大學）. In September 2013, He completed his EMBA at China Europe International Business School（中歐國際工商學院）and received an EMBA degree. He is a qualified computer applications software engineer accredited by Guangzhou Municipal Human Resources Bureau in China.

Mr. XIONG Xinsheng（**熊鑫升**）, aged 57, is a General Manager of Finance of the Group. He joined the Group in August 2015 and is responsible for financial planning, accounting and audit, financial and treasury management and internal controls. Prior to joining the Group, He served as a civil servant in the taxation bureau of Xianfeng and Enshi, Hubei Province, PRC from September 1989 to August 2015. He completed his studies in business management from Hubei Radio & TV University（湖北廣播電視大學）in July 1989. He also completed his distance undergraduate education in laws at the Party School of the Central Committee of CPC（中共中央黨校）in December 2001. He completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen（深圳清華大學研究院）in December 2015.

Ms. LIU Wenying（**劉文英**）, aged 49, is a General Manager of Production of the Group. She joined the Group in April 2014 and is responsible for planning, organizing and overseeing the procurement, production and quality control functions. She also serves as the general manager of the wholly-owned subsidiaries, namely Hubei Fuya Food Science and Technology Co., Ltd.（湖北馥雅食品科技有限公司）and Guangzhou Natural Food. Prior to joining the Group, she worked at Guangzhou Zhenkungfu Fast Food Chain Management Co., Ltd.（廣州真功夫快餐連鎖管理有限公司）from August 1998 to April 2014. She obtained her bachelor's degree in food science and agricultural engineering from Beijing Agricultural University（北京農業大學）in July 1994. She further completed her studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen（深圳清華大學研究院）in December 2015.

Directors and Senior Management

COMPANY SECRETARY

Mr. CHAN Yik Pun（陳奕斌）, aged 38, is the company secretary of the Company and was appointed on 1 June 2018. He has accumulated over 10 years of accounting and auditing experience from working in various international accounting firms, including Grant Thornton and Ernst & Young, as well as various companies listed on the Main Board of the Stock Exchange, including Regal Hotels International Limited (stock code: 78), Chaoyue Group Limited (stock code: 147) and Zall Group Limited (stock code: 2098), as a key financial officer. He obtained his Bachelor of Business (Accounting) from Monash University, Melbourne, Australia in December 2004. He is a member of Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to its shareholders (the "**Shareholders**") and protecting and enhancing Shareholders' value through good corporate governance.

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures, internal control and risk management procedures of the Group so as to achieve effective accountability.

CORPORATE GOVERNANCE PRACTICES

The Board will continue to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out in Appendix 14 to the Listing Rules so as to maintain a high standard of corporate governance of the Company.

The Board is of the view that during the year ended 31 December 2019, the Company has complied with applicable code provisions as set out in the CG Code, except for the deviation from code provisions E.1.2, as code provision E.1.2 of the CG Code stipulates that the Chairman of the board of directors should attend the annual general meeting. Ms. Gui Changqing, the Chairman of the Board of the Company, was unable to attend the annual general meeting of the Company held on 31 May 2019 due to a business trip.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as its own code of conduct governing the securities transactions by the Directors. Following a specific enquiry made by the Company on each of the Directors, all Directors have confirmed that they had complied with the Model Code during the Period.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Corporate Governance Report

BOARD OF DIRECTORS

Responsibilities

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support is in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to convening general meetings, implementing the resolutions passed at the general meetings, determining the business and investment plans of the Group, formulating the annual financial budget and financial statements of the Group, and formulating the proposals for dividend distributions as well as exercising other powers, functions and duties as conferred by the Company's articles of association (the "**Articles of Association**"). The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. The responsibilities of these Board committees include monitoring the Group's operational and financial performance, and ensuring that appropriate internal control and risk management are in place. The Board may from time to time delegate certain functions to management of the Group if and when considered appropriate. The management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time. The Directors have full access to information of the Group and the management has an obligation to supply the Directors with adequate information in a timely manner to enable the Directors to perform their responsibilities. The Directors are entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

Composition

The Board currently comprises seven members, consisting of two Executive Directors, two Non-executive Director and three Independent non-executive Directors (the "**INEDs**"), as follows:

Executive Directors
Ms. GUI Changqing *(Chairman)*
Mr. ZHANG Zejun *(Chief Executive Officer)*

Non-executive Director
Ms. TSE Cheung On Anne (Appointed on 30 September 2019)
Mr. WANG Duo (Appointed on 30 September 2019)
Mr. NG Benjamin Jin-Ping (Resigned on 30 July 2019)

Independent non-executive Directors
Mr. ZHANG Senquan
Mr. HU Peng
Mr. OUYANG Liangyi

Corporate Governance Report

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 17 to 21 of this annual report.

None of the members of the Board is related to one another, save and except that Ms. GUI Changqing, the Chairman and Executive Director of the Company, is the spouse of Mr. ZHANG Zejun, the Chief Executive Officer and Executive Director of the Company.

Proper insurance coverage in respect of legal actions against the Directors' liability has been arranged by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs have brought in a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in the Board meetings and serving on various Board committees, all INEDs will continue to make various contributions to the Company.

Throughout the Period, the Company had three INEDs, which was in compliance with the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members, and that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received an annual confirmation of independence in writing from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers that all the INEDs are independent and have met the independence guidelines as set out in Rule 3.13 of the Listing Rules.

Paragraph A.2.7 of the CG Code requires that the Chairman should at least annually hold meetings with the independent non-executive Directors without the presence of the other Directors. For the year ended 31 December 2019, the Chairman held one meeting with the independent non-executive Directors on 28 March 2019 without the presence of any other Director. Going forward, the Chairman will continue to ensure compliance with this code provision.

DIRECTORS' INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Upon appointment of director(s), each new director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive updates on the relevant laws, rules and regulations. The Company encourages the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire their relevant knowledge and skills.

Corporate Governance Report

During the year ended 31 December 2019, the Company organised training on duties and responsibilities of directors and seminar on updated laws and regulations for the Directors. Pursuant to code provision A.6.5 of the CG Code. The Company has also provided reading materials to the Directors to develop and refresh their professional knowledge.

Furthermore, the Company has arranged site visit for the Directors to enhance their understanding and knowledge of the Group's business operation.

MEETINGS OF THE BOARD AND DIRECTORS' ATTENDANCE RECORDS

During the year ended 31 December 2019, the Board held four meetings, at which the Board discussed and approved the proposals of Company' s overall strategy, considered and approved the proposals of Company' s 2018 annual report, 2018 annual results announcement, the payment of 2018 final dividend, 2019 interim report, 2019 interim results announcement, the payment of the 2019 interim dividend and etc., and the change of director and change of composition of board committees.

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2019:

Name of Directors	Attendance/Number of board meetings	Attendance/Number of general meeting
Executive Directors		
Ms. GUI Changqing *(Chairman)*	4/4	0/1
Mr. ZHANG Zejun	3/4	1/1
Non-executive Director		
Ms. TSE Cheung On Anne (Appointed on 30 September 2019)	0/4	0/1
Mr. WANG Duo (Appointed on 30 September 2019)	0/4	0/1
Mr. NG Benjamin Jin-Ping (Resigned on 30 July 2019)	3/4	0/1
Independent non-executive Directors		
Mr. ZHANG Senquan	4/4	1/1
Mr. HU Peng	4/4	0/1
Mr. OUYANG Liangyi	4/4	1/1

Going forward, regular meeting of the Board is scheduled four times a year at approximately quarterly intervals with notice given to the Directors at least 14 days in advance. For all other Board meetings, notice will be given in a reasonable time in advance. The Directors are allowed to include any matter in the agenda that is required for discussion and resolution at the meeting. To enable the Directors to be properly briefed on issues arising at each of the Board meetings and to make informed decisions, an agenda and the accompanying Board papers will be sent to all Directors at least three days before the intended date of the Board meeting, or such other period as agreed. The company secretary of the Company (the "**Company Secretary**") is responsible for keeping all Board meetings' minutes. Draft and final versions of the minutes will be circulated to the Directors for comments and record respectively within a reasonable time after each meeting and the final version is open for the Directors' inspection.

Save for the family relationships disclosed in the Board of Directors and Senior Management of this annual report, the Directors do not have any material financial, business or other relationships among members of the Board. Should a Director has a potential conflict of interest in a matter being considered in the Board Meeting, he or she will abstain from voting. The INEDs with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

BOARD DIVERSITY POLICY

During the year ended 31 December 2019, the Board has adopted a policy of the Board's diversity and discussed all measurable objectives set for implementing the same.

The Company recognises and embraces the benefits of a diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and Chief Executive Officer are held by Ms. GUI Changqing and Mr. ZHANG Zejun, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing. Therefore, the Company has complied with paragraph A.2.1 of the CG Code, which stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

Corporate Governance Report

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. A list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report. The Board committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely ZHANG Senquan, HU Peng and OUYANG Liangyi, our independent non-executive Directors. ZHANG Senquan has been appointed as the Chairman of the Audit Committee.

The principal roles and functions of the Audit Committee include but not limited to:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of their resignation or dismissal;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and discussing with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- developing and implementing policy on engaging external auditors to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- monitoring integrity of the Company's financial statements and annual report and accounts, half-year report and, reviewing significant financial reporting judgements contained in them.
- reviewing the Company's financial controls, risk management and internal control systems;
- discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- ensuring coordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- ensuring that the Board will provide a timely response to the issues raised in the external auditors' management letter; and
- considering other matters as referred to the Committee by the Board.

The Audit Committee has established and oversees a whistleblowing policy. In line with that commitment, the Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to come forward and voice those concerns. All whistleblowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

During the year ended 31 December 2019, the Audit Committee held 4 meetings, at which the Audit Committee considered and approved the proposals of Company's 2018 annual report, 2018 annual results announcement, annual audit plan for the year of 2018, 2019 interim report, 2019 interim results announcement and interim review plan for the year of 2019 by Ernst & Young, the external auditor of the Company. The Audit Committee also assessed the risk management and internal control measures of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2019:

Name of Directors	**Attendance/Number of Meetings**
Mr. ZHANG Senquan *(Chairman)*	4/4
Mr. HU Peng	4/4
Mr. OUYANG Liangyi	4/4

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely ZHANG Senquan, HU Peng and OUYANG Liangyi, our independent non-executive Directors. HU Peng has been appointed as the Chairman of the Remuneration Committee.

The principal roles and functions of the Remuneration Committee include but not limited to:

- making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of the Non-executive Directors;
- considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- ensuring that no Director or any of his associates is involved in deciding his own remuneration; and
- considering all other matters as referred to the Committee by the Board.

During the year ended 31 December 2019, the Remuneration Committee held 2 meetings, at which the Remuneration Committee reviewed and approved the proposals of remuneration of the Directors and senior management, the policy and structure of the remuneration for the Directors and senior management, etc.

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2019:

Name of Directors	Attendance/Number of Meetings
Mr. HU Peng *(Chairman)*	2/2
Mr. ZHANG Senquan	2/2
Mr. OUYANG Liangyi	2/2

Nomination Committee

The Company established a nomination committee (the "**Nomination Committee**") with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, being OUYANG Liangyi and HU Peng and one executive Director, being GUI Changqing. OUYANG Liangyi has been appointed as the Chairman of the Nomination Committee.

The principal roles and functions of the Nomination Committee include but not limited to:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- assessing the independence of Independent Non-executive Directors; and

- making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive.

NOMINATION POLICY

This nomination policy adopted by the Company aims to set out the approach to guide the nomination committee of the Company in relation to the election, appointment and re-appointment of the Directors. It aims to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The provisions set out in the following paragraphs are regarded as the key nomination criteria and principles of the Company for the nomination of Directors of the Board, and these provisions constitute the "Nomination Policy" of the Company.

a. to review the structure, size and diversity (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

b. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

c. to make recommendations to the Board on the appointment or re-appointment of Directors of the Board and succession planning for Directors of the Board, in particular the Chairman of the Board and the Chief Executive Officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

NOMINATION PROCESS

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

(a) The Nomination Committee will, giving the consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;

(b) The Nomination committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from shareholders of the Company with due consideration given to the Criteria;

(c) The Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;

(d) Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/ or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.

(e) The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and

(f) The Board will have the final authority on determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

During the year ended 31 December 2019, the Nomination Committee held 2 meetings, at which the Nomination Committee reviewed the proposals of the Board structure, the diversity policy of the Board members, the independence of the independent non-executive Directors, the recommendation of re-election of the retiring Directors and appointment of Non-executive Directors, etc..

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2019:

Name of Directors	Attendance/Number of Meetings
Mr. OUYANG Liangyi *(Chairman)*	2/2
Ms. GUI Changqing	2/2
Mr. HU Peng	2/2

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies, procedures and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies, procedures and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff competency, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2019 has covered the aforesaid matters.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

In accordance with article 16.2 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Ms. Tse Cheung On Anne and Mr. Wang Duo, who were appointed as non-executive Directors by the Board on 30 September 2019, will retire at the Annual General Meeting. At the same time, in accordance with article 16.19 of the Articles of Association, Mr. Hu Peng and Mr. Ouyang Liangyi, our independent non-executive Directors, will retire from office by rotation at the Annual General Meeting. All the above four Directors (collectively, the "**Retiring Directors**"), will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election at the Annual General Meeting.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2019 are set out in note 8 to the financial statements.

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Directors and Senior Management" in this annual report for the year ended 31 December 2019 by band is set out below:

Remuneration band (in HK$)	**Number of individual**
Nil to 1,000,000	1
1,000,001 to 1,500,000	4

INDEPENDENT AUDITORS' REMUNERATION

For the year ended 31 December 2019, Ernst & Young was engaged as the Group's independent auditor. Apart from the provision of annual audit services, Ernst & Young provided the audit and non-audit services in connection with the Listing.

The remuneration paid/payable to the independent auditors in respect of the year ended 31 December 2019 is set out below:

Service Category	**Fees Paid/Payable (RMB)**
Audit Services for 2019 annual audit	1,600,000
Non-audit Services (which include tax advisory and interim review service)	650,000
Total	2,250,000

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out as informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2019.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the issuer's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis. Internal audit function of the Company has been carried out under the leadership of the Board and the Audit Committee.

The key features of the Group's risk management and internal control systems include the following:

- an organized structure with clearly defined and distinct scope of authority and responsibilities;
- a comprehensive financial accounting system to provide for various performance measurement indicators and to ensure compliance with relevant rules;
- annual plans prepared by senior management of the Company on financial reporting, operations and compliance with reference to significant potential risks;
- strict prohibition of unauthorized expenditures;
- guidelines on the dissemination of confidential and sensitive information;
- specific approval from Executive Director/responsible senior executive of the Company prior to commitment in all material matters;

- appropriate policy to ensure the effective use of resources, the qualifications and experiences possessed by the staff members who are responsible for the Group's accounting and financial reporting functions, and sufficient training provided to the staff members;
- management's review and evaluation on the internal control procedures and monitoring of risk factors on a regular basis; and
- report to the Audit Committee about the findings on identified risks and measures to address such risks.

Procedures have been put in place to safeguard the Group's assets against unauthorised use or disposal, to ensure proper accounting records are kept so that reliable financial information can be provided when required, and to ensure compliance with all applicable laws and regulations. These procedures have been based on industry norms and are designed to provide reasonable assurance and protection against errors, losses and fraud.

During the year ended 31 December 2019, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers that the Group's risk management and internal control are adequate and effective. The Board expects that a review of the risk management and internal control systems will be performed annually.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced promptly. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;
- the Group has strictly prohibited unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, the Company Secretary and the Financial Controller of the Company are authorised to communicate with parties outside the Group.

Corporate Governance Report

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring that reliable and relevant flow of information is maintained amongst members of the Board and that all procedures have been adhered to in accordance with applicable laws, rules and regulations. All Directors have access to the advice and services of the Company Secretary on corporate governance and board practices and matters.

During the year ended 31 December 2019, the company secretary of the Company was Mr. CHAN Yik Pun. The company secretary's biography is set out in the section headed "Directors and Senior Management" on page 21 of this annual report. In compliance with Rule 3.29 of the Listing Rules, Mr. CHAN Yik Pun, in his capacity as the Company Secretary, has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing Shareholders to make proposals or move resolutions at the AGMs under the memorandum of association of the Company and the Articles of Association (the "**M&A**") or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting (the "**EGM**") in accordance with the "Procedures for Shareholders to convene an EGM" set out below.

Procedures for Shareholders to Convene an EGM

According to Article 12 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to require an EGM to be called by the Board or the Company Secretary for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned (the "**Requisitionist(s)**") at the principal place of business of the Company in Hong Kong (presently at 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong) for the attention of the Company Secretary. The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM and the proposed agenda.

Following receipt of the Requisition, the identity and shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM and/or include the proposal(s) made or the resolution(s) proposed by the Requisitionist(s) at the EGM within 2 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of the outcome and accordingly, the Board will not call for an EGM nor include the proposal(s) made or the resolution(s) proposed by the Requisitionist(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board fails to proceed to convene such meeting, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to Send Enquires to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them by post to the principal place of business of the Company in Hong Kong (presently at 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong) or by email to ir@szwgmf.com, for the attention of the Company Secretary.

Upon receipt of the enquiries, the Company Secretary will forward the communications relating to:

1. the matters within the Board's purview to the Executive Directors;
2. the matters within a Board committee's area of responsibility to the Chairman of the appropriate committee; and
3. ordinary business matters, such as suggestions, enquiries and client complaints to the appropriate management of the Company.

DIVIDEND POLICY

The Company has adopted a general annual dividend policy of declaring and paying dividends on an annual basis of approximately 20% to 40% of the total net profit attributable to the Group for any particular year. The declaration of dividends is subject to the discretion of the Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon the Group's earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions the Directors may deem relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the Articles of Association and the Cayman Companies Law. The Company may distribute dividends by way of cash or by other means that we consider appropriate.

The Board has the discretion to declare dividends to the Shareholders, subject to the Articles and all applicable laws and regulations and taking into consideration factors set out below:

(1) financial results;

(2) cash flow situation;

(3) business conditions and strategies;

(4) future operations and earnings;

(5) capital requirements and expenditure plans;

(6) interests of shareholders;

(7) taxation consideration;

(8) any contractual, statutory and regulatory restrictions on payment of dividends; and

(9) any other factors that the Board may consider relevant.

The Company will evaluate its dividend policy and distributions made from time to time.

COMPLIANCE ADVISER

The Company appointed CMBC International Capital Limited as the compliance adviser with effect from 12 December 2018 to provide guidance and opinion to the Company in respect of the compliance with the Listing Rules and other regulations and practice governing listed issuers in Hong Kong.

INVESTOR RELATIONS AND COMMUNICATION WITH THE SHAREHOLDERS

The Company has adopted a Shareholders' communication policy with the objective of ensuring that the Shareholders will have equal and timely access to information about the Company in order to enable the Shareholders to exercise their rights in an informed manner and allow them to engage actively with the Company.

Information will be communicated to the Shareholders through the Company's financial reports, AGMs and other EGMs that may be convened as well as all the published disclosures submitted to the Stock Exchange. To promote effective communication, the Company maintains a website at www.szwgmf.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

The 2020 annual general meeting (the "**AGM**") of the Company will be held on 29 May 2020 (Friday). The notice of AGM was sent to the shareholders at least 20 clear business days before the AGM.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019 and up to the date of this annual report, there is no any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

Report of the Board of Directors

The Board is pleased to present their report and the audited financial statements for the year ended 31 December 2019 of the Group.

INITIAL PUBLIC OFFERING

The Company was registered by way of continuation in the Cayman Islands with limited liability on 11 May 2018. The Company listed its Shares on the Main Board of the Stock Exchange on the Listing Date. The Company issued 421 million Shares at an offer price of HK$1.62 per Share.

PRINCIPAL PLACE OF BUSINESS

The registered office of the Company is situated in the Cayman Islands and its operation headquarter is located at Shenzhen Guangdong Province, the PRC.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. The principal activities and other details of subsidiaries of the Company are set out in note 1 to the financial statements.

BUSINESS REVIEW

Discussion and analysis of the business of the Group for the year ended 31 December 2019 are set out in the section headed "Management Discussion and Analysis" on pages 6 to 16 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2019 and the Group's financial position as at 31 December 2019 are set out in the Financial Statements on pages 64 to 67 of this annual report.

FINAL DIVIDEND

At the Board meeting held on 30 March 2020, in light of the payment of the 2019 interim dividend, the Board was resolved not to pay final dividend for the year ended 31 December 2019.

ANNUAL GENERAL MEETING

The 2020 AGM will be held on 29 May 2020. Notice of the 2020 AGM will be published and issued to Shareholders in due course.

Report of the Board of Directors

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed during the following periods:

(A) For ascertaining eligibility to attend and vote at the AGM:

- Latest time to lodge transfers documents for registration 4:30 p.m. on 25 May 2020 (Monday)
- Closure of register of members 26 May 2020 (Tuesday) to 29 May 2020 (Friday)

To be eligible to attend and vote at the AGM, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than the respective latest time as stated above.

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group in the form of a comparative table for the last five financial years is set out on pages 150 to 151 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is subject to environmental protection laws and regulations promulgated by the governments in the jurisdictions in which the Company operates its business. The Company has dedicated a team of personnel to handle the environmental compliance-related matters, and implemented stringent waste treatment procedures in the manufacturing facilities.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was registered by way of continuation in the Cayman Islands with its principal business conducted in the PRC, and its Shares are listed on the Stock Exchange. Therefore, the establishment and operation are subject to relevant laws in the Cayman Islands, the PRC and Hong Kong. For the year ended 31 December 2019 and up to the date of this annual report, the Group complied with relevant laws and regulation in the Cayman Islands, the PRC and Hong Kong.

PRINCIPAL RISKS AND UNCERTAINTY

The Group is exposed to the operational risk in relation to the business of the Group. With the growth and expansion of our operations, the potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to our success, the Group has implemented a risk management system that covers each material aspect of our operations, including financial security, production, logistics, technology and compliance. As the risk management is a systematic project, each of the departments is responsible for identifying and evaluating the risks relating to its area of operations. The Audit Committee is responsible for overseeing, assessing and reviewing our risk management policy and supervising the performance of our risk management system.

Report of the Board of Directors

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on 12 December 2018 with net proceeds from the Global Offering of 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) and the balance of unutilised net proceeds of approximately HK$317.5 million as at the date of this annual report.

The net proceeds from the Global Offering have been and will be utilised in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to the date of this annual report:

	Budget	Amount that had been utilized as at 31 December 2019 (Unit HKD million)	Remaining balance as at 31 December 2019
To further enhance our integrated distribution platform and optimize our channel mix	222.9	115.5	107.4
– To expand the online presence through further developing the technology infrastructure	22.3	18.0	4.3
– To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	12.0	10.3
– To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	22.0	22.6
– To expand into and introduce our existing and/or new products at various high-frequency "on-the-go" consumption channels	133.7	63.5	70.2
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	172.0	210.1
To use for general corporate purposes	31.8	31.8	–
Total	636.8	319.3	317.5

As at 31 December 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. 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.

Report of the Board of Directors

SHARE CAPITAL

The changes in share capital of the Group during the Reporting Period are set out in note 27 to the Financial Statements.

RESERVES

Details of the changes in reserves of the Group during the Reporting Period are set out in note 29 to the Financial Statements.

As at 31 December 2019, the reserves of the Company available for distribution to Shareholders was approximately RMB660.7 million.

MAJOR CUSTOMERS AND SUPPLIERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the Reporting Period, and sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year, no major customer segment information is presented in accordance with HKFRS 8 Operating Segments.

The Group's five largest suppliers accounted for 20.9% (2018: 23.6%) of the Group's total purchases and the largest supplier accounted for 8.1% (2018: 6.0%) of the Group's total purchases.

As far as the Company is aware, none of the Directors nor his/her connected persons and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the Reporting Period are set out in note 13 to the Financial Statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the Reporting Period are set out in note 25 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any contingent liabilities.

Report of the Board of Directors

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

DIRECTORS

The Directors in office during the Reporting Period and as at the date of this annual report were as follows:

Executive Directors

Ms. GUI Changqing
Mr. ZHANG Zejun

Non-executive Director

Ms. TSE Cheung On Anne (Appointed on 30 September 2019)
Mr. WANG Duo (Appointed on 30 September 2019)
Mr. NG Benjamin Jin-Ping (Resigned on 30 July 2019)

Independent non-executive Directors

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

Further details of the Directors and senior management are set forth in the section "Directors and Senior Management" of this annual report.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Group are set out on pages 17 to 21 of this annual report.

CHANGE IN INFORMATION OF DIRECTORS

Mr. NG Benjamin Jin-Ping was resigned as a Non-executive Director on 30 July 2019 due to his intention to devote more time to focus on his own business commitments.

Ms. TSE Cheung On Anne and Mr. WANG Duo were appointed as Non-executive Directors on 30 September 2019.

Save as disclosed above and in this annual report, there is no changes in information of Directors required to be disclosed for the year ended 31 December 2019 pursuant to Rule 13.51B(1) of the Listing Rules. The biographical details of the Directors of the Company are set out in the preceding section headed "Directors and Senior Management".

Report of the Board of Directors

SERVICE CONTRACTS OF DIRECTORS

Each of the Executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than two months' notice in writing served by either the Executive Director or the Company.

Each of the Non-executive Directors and the Independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

All Directors are subject to retirement by rotation and re-election in accordance with the Articles.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the related party transactions of the Group during the Reporting Period are set out on pages 134 to 136 of this annual report.

Save as disclosed above, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period.

CONTROLLING SHAREHOLDER'S INTEREST

Save as disclosed in this annual report, no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at any time during the Reporting Period.

Report of the Board of Directors

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

As at 31 December 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 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)	42.41%
Ms. GUI Changqing (Note 2)	Beneficiary of trust	930,000,000 (L)	42.41%
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 31 December 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 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)	42.41%
Paddy Aroma Investment Limited (Note 2)	Interest in a controlled corporation	930,000,000 (L)	42.41%
Natural Capital Holding Limited (Note 2)	Beneficial owner	930,000,000 (L)	42.41%
PepsiCo, Inc.	Beneficial owner	566,506,000 (L)	25.83%
Mr. YANG Zhuoya (Note 3)	Interest in controlled corporation; beneficial owner	183,784,000 (L)	8.38%
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)	6.84%

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.

Report of the Board of Directors

Save as disclosed above, as at 31 December 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.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the Reporting Period or subsisted at the end 31 December 2019.

SHARE OPTION SCHEME

On 19 November 2018, the Shareholders approved and conditionally adopted 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 the Listing Date.

The following is a summary of the principal terms of the Share Option Scheme:

(1) Purpose:

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons (as defined in paragraph 2 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.

(2) Participants:

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 our Group or associated companies of the Company, consultant, advisor, customer, supplier, agent, partner or contractor to the Group ("**Eligible Persons**").

(3) Total number of Shares available for issue:

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 the Listing Date.

(4) Maximum entitlement of each participant:

No options shall be granted to any Eligible Person under the Share Option Scheme and any other schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his close associates (or if such Eligible Person is a connected person of our Company, his associates) abstaining from voting.

Each grant of options to a Director (including an independent non-executive Director) of any member of our Group or associated company of our Company, chief executive or substantial shareholder of our Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Any Shareholder who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution subject to the requirements of the Listing Rules. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

(5) Period during which the options must be exercised to subscribe for Shares:

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, 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.

(6) Minimum period for which an option must be held before it can be exercised:

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Board.

(7) Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be repaid:

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(8) Basis of determining the exercise price:

Subject to any adjustment made as set out in the section headed "Effect of alternation to share capital" in the Prospectus, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

(ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and

(iii) the nominal value of the Shares.

(9) Remaining life of the Share Option Scheme:

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 12 December 2018, subject to earlier termination by the Company in general meeting or by the Board.

During the Reporting Period, 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
Ms. GUI Changqing	Chairman and Executive Director	2,000,000
Mr. ZHANG Zejun	Chief executive officer and Executive Director	2,000,000
Mr. ZHANG Senquan	Independent non-executive Director	2,000,000
Mr. HU Peng	Independent non-executive Director	2,000,000
Mr. OUYANG Liangyi	Independent non-executive Director	2,000,000
Mr. WANG Jun	A director of certain subsidiaries of the Company	1,172,436
Mr. GUI Xuejun	A director of certain subsidiaries of the Company	1,279,021
Mr. 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 Reporting Period, 5,962,474 Share Options had lapsed and 1,014,000 share options had been exercised in a total consideration of RMB1,310,000. As at 31 December 2019, 67,043,349 Share Options were outstanding.

Details of the options granted under the Share Option Scheme and those remained outstanding as at 31 December 2019 are as follows:

		Number of share options						
Name and class of grantees	**Date of grant**	**Balance as at 1 January 2019**	**Granted during the year ended 31 December 2019**	**Exercised during the year ended 31 December 2019**	**Cancelled/ Lapsed during the year 31 December 2019**	**Balance as at 31 December 2019**	**Exercise price per share (HK$)**	**Exercisable period**
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**		
Continuous contract employees	12 June 2019	–	4,000,000	–	(1,080,000)	2,920,000	1.468	Note a
	12 June 2019	–	23,159,823	(1,014,000)	(1,882,474)	20,263,349	1.468	Note b
	12 June 2019	–	22,000,000	–	(3,000,000)	19,000,000	1.468	Note c
	12 June 2019	–	13,860,000	–	–	13,860,000	1.468	Note d
		–	**63,019,823**	**(1,014,000)**	**(5,962,474)**	**56,043,349**		
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**		
		–	**74,019,823**	**(1,014,000)**	**(5,962,474)**	**67,043,349**		

(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 exerciseable 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.

(e) The weighted average closing prices of the shares immediately before the dates on which the options exercised are HK$1.66.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the Share Option Scheme as discussed under the section headed "Share Option Scheme" in this annual report, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement.

CONNECTED TRANSACTIONS

Details of the continuing connected transaction of the Group during the Reporting Period have been disclosed in the Prospectus, which is fully exempted from the reporting, announcement, Shareholders' approval and annual review requirements under the Listing Rules.

PROPERTY INTERESTS

Description	Use	Approximate area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
West Side of Hengli Yiheng Road, Hengli Food Industrial Park, Hengli Town, Nansha District, Guangzhou City, Guangdong Province, People's Republic of China	Factory	Site area – approximately 58,000 sq. m. Gross floor area – approximately 60,000 sq. m.	Construction in progress (Expected to be completed in late 2020)	100

Report of the Board of Directors

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 838 employees, as compared with 1,007 employees as at 31 December 2018. For the year ended 31 December 2019, costs of employees, excluding Directors' emoluments, amounted to a total of RMB201.5 million, representing an increase of approximately 5.5% from RMB190.9 million in 2018. The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees with welfare schemes as required by applicable local laws and regulations.

The Company has also adopted the Share Option Scheme. Details of the share option scheme are set out in the paragraph headed "Share Option Scheme" in this section.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 December 2019 are set out in notes 8-9 to the consolidated financial statements of the Group in this annual report.

None of the Directors waived his/her emoluments nor has agreed to waive his/her emoluments for the year ended 31 December 2019.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the Reporting Period, the Company bought back a total of 33,500,000 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
July	–	–	–	–
August	–	–	–	–
September	4,500,000	1.59	1.52	7,049,580.80
October	–	–	–	–
November	–	–	–	–
December	–	–	–	–

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 Reporting Period.

Report of the Board of Directors

CHARITABLE DONATIONS

During the Reporting Period, the charitable contributions and other donations amounted to RMB100,000.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability. The Company is committed to the view that the Board should include a balanced composition of Executive Directors and Independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The code provisions of the CG Code as set out in Appendix 14 to the Listing Rules were not applicable to the Company before the Listing Date.

The Board is of the view that during the year ended 31 December 2019, the Company has complied with applicable code provisions as set out in the CG Code, except for the deviation from code provisions E.1.2, as code provision E.1.2 of the CG Code stipulates that the Chairman of the board of directors should attend the annual general meeting. Ms. Gui Changqing, the Chairman of the Board of the Company, was unable to attend the annual general meeting of the Company held on 31 May 2019 due to a business trip. For details, please refer to the "Corporate Governance Report".

The Audit Committee, consisting of all three Independent non-executive Directors, namely Mr. ZHANG Senquan (chairman of the Audit Committee), Mr. HU Peng and Mr. OUYANG Liangyi, is responsible for reviewing the Company's corporate governance policies and the Company's compliance with the CG Code and will make relevant recommendations to the Board accordingly.

SECURITIES TRANSACTIONS BY DIRECTORS

The Model Code as set out in Appendix 10 to the Listing Rules was not applicable to the Company before the Listing Date. The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct governing the Directors' securities transactions and each of the Directors has confirmed, upon specific enquiries made by the Company, that he/she had complied with the Model Code during the Period.

CONFIRMATION OF INDEPENDENT STATUS

The Company has received, from each of the Independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent non-executive Directors independent.

Report of the Board of Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Ms. Tse Cheung On Anne, currently serves as an outside director of Calbee, Inc., a Japanese snack food company listed on the Tokyo Stock Exchange (stock code: 2229). Since Ms. Tse Cheung On Anne does not hold any executive role in Calbee, Inc. and is merely providing independent advice and guidance in her capacity as an outside director, the Company and Ms. Ms. Tse Cheung On Anne are both satisfied that there is no actual or potential competition between the Company and Calbee, Inc..

As at 31 December 2019, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

Pursuant to the Deed of Non-competition, each of Mr. ZHANG Zejun and Natural Capital has undertaken to the Company that it/he will not engage in, and shall procure his/its close associates (other than members of the Group) not to engage in, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group. Details of the Deed of Non-competition have been disclosed in the section headed "Relationship with our Controlling Shareholders — Competing Interests — Deed of Non-competition" of the Prospectus.

The Company has received from Mr. ZHANG Zejun and Natural Capital an annual confirmation that he/it has fully complied with his/its obligations under the Deed of Non-competition. The independent non-executive Directors have reviewed and were satisfied that each of Mr. ZHANG Zejun and Natural Capital had complied with and enforced the provisions of the Deed of Non-competition during the Period.

SUFFICIENT PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient public float required under the Listing Rules as at the date of this annual report.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that the employees, customers and suppliers are keys to corporate sustainability and are keen on developing long-term relationships with stakeholders.

The Company places significant emphasis on human capital and strives to foster an environment in which the employee can develop their full potential and to assist their personal and professional growth. The Company provides a fair and safe workplace, promoting diversity to our staff, providing competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts on-going efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

Report of the Board of Directors

The Group understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the Reporting Period, there was no material and significant legal dispute between the Group and its suppliers and/or customers.

PROFESSIONAL TAX ADVICE RECOMMENDED

For any tax implications of purchasing, holding, disposing of, dealing in the shares of the Company, shareholders should consult an expert.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

The Company has taken appropriate insurance coverage in respect of Directors' and officers' liability since 30 January 2019 until the end of the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

An outbreak of COVID-19, first reported in December 2019, has spread throughout the world, especially in China, the United States and Europe. On 11 March 2020, the World Health Organization declared the outbreak a global pandemic. Many businesses and social activities in China and other countries and regions have been disrupted, including our customers and manufacturers. This global outbreak has also caused market panics, which materially and negatively affected the global financial markets, such as the plunge of global stocks on major stock exchanges, including the Stock Exchange, in March 2020. The operation of Hubei Fuya Food Science and Technology Co., Ltd, which is a subsidiary of the Company located in Huanggang of Hubei Province, has been suspended after the statutory holidays for Chinese New Year as part of the Chinese government's countermeasures in containing the COVID-19 outbreak, and the operation was resumed on 14 March 2020, which is in compliance with local government's approval. For details of the suspension, please refer to the announcements of the Company dated 12 February 2020 and 25 February 2020. The Directors are currently assessing if the COVID-19 will have any material adverse impact on the business and results of operation of the Group as at the date these financial statements are authorised for issue. However, we cannot assure you that the disruption and potential slowdown of China's and the world's economy in 2020 and beyond may not adversely affect the Group's results of operations and financial conditions in future periods. Additionally, if the outbreak persists or escalates, our business operations and financial condition may also be adversely affected. The Directors will closely monitor the potential impacts, and inform the shareholders if the outbreak of COVID-19 will cause any material adverse impact on the business operations and financial conditions of the Group.

Report of the Board of Directors

Save as disclosed in this announcement, there was no other significant event relevant to the business or financial performance of the Group that has come to the attention of the Directors since 31 December 2019.

REVIEW OF THE ANNUAL RESULTS

The Audit Committee had reviewed this annual report (including the Financial Statements) and the annual results announcement of the Company for the year ended 31 December 2019 and had submitted the same to the Board for approval. Members of the Audit Committee were of the opinion that the Financial Statements, the results announcement and this annual report had been prepared in compliance with the applicable accounting standards and the Listing Rules and that adequate disclosure had been made.

AUDITORS

The financial statements of the Company for the year ended 31 December 2019 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the Board of Directors
GUI Changqing
Chairman

30 March 2020

Independent Auditor's Report

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To the shareholders of Natural Food International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Natural Food International Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 149, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key Audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group is principally engaged in the processing and selling of natural health food. There is inherent risk around revenue recorded based on the fact that the Group earns revenue primarily through a chain of retail outlet channels and third-party online retail platform networks. For the year ended 31 December 2019, the Group's consolidated revenue amounted to RMB1,784,086,000. Revenue was significant in our audit of the consolidated financial statements for the current year. Please refer to note 2.4 to the financial statements for the summary of accounting policies relating to revenue recognition, and note 5 to the financial statements for the related disclosure of revenue for the Group.	We reviewed and assessed the Group's revenue recognition policy across various sales channels and significant terms and conditions in contracts. We obtained an understanding of the transaction process of revenue recognition and evaluated the design, implementation and operating effectiveness of key internal controls which govern the revenue recognition. We performed analytical procedures on the Group's revenue by different channel and by month to identify and investigate transactions of higher risks of misstatements. We also performed revenue cut-off procedures as well as tests of details, as part of our substantive audit procedures. We obtained confirmations, on a sample basis, from major retail outlet channels of the Group to confirm revenue recognised during the year and, for unreturned confirmations, we performed alternative procedures by comparing details with contracts, invoices and other related documentation.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**1,784,086**	1,818,066
Cost of sales		**(464,884)**	(427,398)
Gross profit		**1,319,202**	1,390,668
Other income and gains	5	**22,854**	21,970
Selling and distribution expenses		**(1,092,422)**	(1,070,944)
Administrative expenses		**(102,905)**	(133,161)
Impairment losses on financial assets	6	**(4,590)**	(3,233)
Other expenses		**(1,259)**	(1,525)
Finance costs	7	**(815)**	(436)
Loss on fair value changes of convertible and redeemable preferred shares	30	**–**	(75,706)
PROFIT BEFORE TAX	6	**140,065**	127,633
Income tax expense	10	**(13,735)**	(22,394)
PROFIT FOR THE YEAR		**126,330**	105,239
Attributable to:			
Owners of the parent	12	**126,330**	105,239
Non-controlling interests	–	**–**	
		126,330	105,239

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(10,286)**	(7,788)
Other comprehensive income/(loss) that will not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**15,763**	(16,932)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**131,807**	80,519
Attributable to:			
Owners of the parent		**131,807**	80,519
Non-controlling interests		**–**	–
		131,807	80,519
Earnings per share (expressed in RMB)			
Basic	12	**0.06**	0.06
Diluted	12	**0.06**	0.06

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**299,772**	212,646
Right-of-use assets	15(b)	**58,611**	–
Prepaid land lease payments	15(a)	**–**	36,640
Intangible assets	14	**1,045**	1,543
Deferred tax assets	16	**19,958**	18,448
Total non-current assets		**379,386**	269,277
CURRENT ASSETS			
Inventories	17	**113,957**	122,286
Trade and bills receivables	18	**225,583**	239,602
Financial assets at fair value through profit or loss	19	**–**	71,400
Prepayments, other receivables and other assets	20	**67,065**	59,423
Amount due from a director	32	**6**	–
Amount due from a related party	32	**10,802**	9,375
Time deposits	21	**–**	25,000
Cash and cash equivalents	21	**558,048**	604,913
Restricted bank deposits	21	**555**	–
Total current assets		**976,016**	1,131,999
CURRENT LIABILITIES			
Trade payables	22	**63,265**	72,121
Interest-bearing borrowing	25	**–**	70,096
Contract liabilities	23	**10,762**	16,669
Other payables and accruals	24	**133,462**	137,357
Lease liabilities	15(c)	**5,565**	–
Tax payable		**32,915**	27,570
Total current liabilities		**245,969**	323,813
NET CURRENT ASSETS		**730,047**	808,186
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,109,433**	1,077,463

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	26	**88**	277
Deferred tax liabilities	16	**3,324**	4,361
Lease liabilities	15(c)	**16,180**	–
Total non-current liabilities		**19,592**	4,638
Net assets		**1,089,841**	1,072,825
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**147**	149
Treasury shares	27	**(6,359)**	–
Other reserves	29	**1,096,053**	1,072,676
Non-controlling interests		**–**	–
Total equity		**1,089,841**	1,072,825

Gui Changqing
Director

Zhang Zejun
Director

Consolidated Statement of Changes in Equity

31 December 2019

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 27)	Treasury shares RMB'000 (Note 27)	Share premium RMB'000 (Note 29(a))	Share option reserve RMB'000	Merger reserve RMB'000 (Note 29(b))	Exchange fluctuation reserve RMB'000 (Note 29(c))	Statutory surplus reserve RMB'000 (Note 29(d))	Retained profits RMB'000	Total RMB'000
At 1 January 2019	149	–	1,222,304*	–	(87,350)*	(19,332)*	32,328*	(75,274)*	1,072,825
Profit for the year	–	–	–	–	–	–	–	126,330	126,330
Exchange differences on translation of foreign operations	–	–	–	–	–	(10,286)	–	–	(10,286)
Translation from functional currency to presentation currency	–	–	–	–	–	15,763	–	–	15,763
Total comprehensive income for the year	–	–	–	–	–	5,477	–	126,330	131,807
Shares repurchased and cancelled	(2)	(6,359)	(39,763)	–	–	–	–	–	(46,124)
Equity-settled share option arrangements	–	–	–	15,229	–	–	–	–	15,229
Share options exercised	–	–	1,750	(440)	–	–	–	–	1,310
Share issue expenses	–	–	(590)	–	–	–	–	–	(590)
Transfer to statutory reserve funds	–	–	–	–	–	–	168	(168)	–
Final 2018 dividend declared	–	–	–	–	–	–	–	(45,012)	(45,012)
Interim 2019 dividend	–	–	(39,604)	–	–	–	–		(39,604)
At 31 December 2019	147	(6,359)	1,144,097*	14,789*	(87,350)*	(13,855)*	32,496*	5,876*	1,089,841
At 1 January 2018	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)	106	–	365,289*	–	(87,350)*	5,388*	24,566*	47,320*	355,319
Profit for the year	–	–	–	–	–	–	–	105,239	105,239
Exchange differences on translation of foreign operations	–	–	–	–	–	(7,788)	–	–	(7,788)
Translation from functional currency to presentation currency	–	–	–	–	–	(16,932)	–	–	(16,932)
Total comprehensive income for the year	–	–	–	–	–	(24,720)	–	105,239	80,519
Conversion of preferred shares	14	–	297,979	–	–	–	–	–	297,993
Issue of shares for the Initial Public Offering ("IPO")	29	–	602,542	–	–	–	–	–	602,571
Share issue expenses	–	–	(43,506)	–	–	–	–	–	(43,506)
Transfer to statutory reserve funds	–	–	–	–	–	–	7,762	(7,762)	–
Special dividend declared to shareholders	–	–	–	–	–	–	–	(220,071)	(220,071)
At 31 December 2018	149	–	1,222,304*	–	(87,350)*	(19,332)*	32,328*	(75,274)*	1,072,825

* These reserve accounts comprise the consolidated reserves of RMB1,096,053,000 (2018: RMB1,072,676,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**140,065**	127,633
Adjustments for:			
Bank interest income	5	**(2,512)**	(1,206)
Income from financial assets measured at fair value through profit or loss	5	**(3,335)**	(4,868)
Finance costs	7	**815**	436
Loss on fair value changes of convertible and redeemable preferred shares	6	**–**	75,706
Depreciation of property, plant and equipment	6	**28,873**	25,124
Depreciation of right-of-use assets	6	**5,528**	–
Amortisation of intangible assets	6	**607**	660
Amortisation of prepaid land lease payments	6	**–**	860
Impairment of trade receivables	6	**4,590**	3,232
Loss on disposal of items of property, plant and equipment	6	**335**	893
Equity-settled share option expenses	28	**15,229**	–
Unrealised exchange gain		**(506)**	(3,992)
		189,689	224,478
Decrease/(increase) in inventories		**8,329**	(40,639)
Decrease/(increase) in trade and bills receivables		**9,429**	(66,716)
Decrease/(increase) in prepayments, other receivables and other assets		**(9,858)**	26,010
Increase in an amount due from a director		**(6)**	–
Decrease/(increase) in amounts due from related parties		**(1,427)**	4,065
Increase in restricted bank deposits		**(555)**	–
Decrease in trade payables		**(8,856)**	(198)
Increase/(decrease) in other payables and accruals		**(659)**	18,607
Decrease in amounts due to directors		**–**	(2,341)
Decrease in amounts due to related parties		**–**	(2,059)
Decrease in contract liabilities		**(5,907)**	(3,954)
Decrease in deferred income		**(189)**	(189)
Cash generated from operations		**179,990**	157,064
Interest received		**2,512**	1,206
Income tax paid		**(10,936)**	(24,620)
Net cash flows from operating activities		**171,566**	133,650

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets measured at fair value through profit or loss		**(130,000)**	(740,600)
Proceeds from redemption of financial assets measured at fair value through profit or loss		**204,735**	759,068
(Increase)/decrease in time deposits		**25,000**	(25,000)
Purchase of items of property, plant and equipment		**(118,908)**	(100,431)
Purchase of items of intangible assets		**(109)**	(486)
Proceeds from disposal of items of property, plant and equipment		**7**	49
Net cash flows used in investing activities		**(19,275)**	(107,400)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loan		**–**	246,106
Repayment of a loan		**(69,568)**	(176,388)
Proceeds from issue of shares for the IPO		**–**	602,571
Share issue expenses		**(590)**	(43,036)
Increase in an amount due to a director		**–**	13,028
Decrease in an amount due to a director		**–**	(13,028)
Interest paid		**(815)**	(304)
Share options exercised		**1,310**	–
Decrease in an amount due to a related party		**–**	(33,436)
Principal portion of lease payments		**(4,209)**	–
Share repurchase		**(46,124)**	–
Dividend paid		**(84,616)**	(244,749)
Net cash flows (used in)/from financing activities		**(204,612)**	350,764
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(52,321)**	377,014
Cash and cash equivalents at beginning of year		**604,913**	227,119
Effect of foreign exchange rate changes, net		**5,456**	780
CASH AND CASH EQUIVALENTS AT END OF YEAR		**558,048**	604,913
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**558,048**	604,913

Notes to Financial Statements

Year ended 31 December 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").

Information about subsidiaries

Name	Place and date of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Natural Food International Group Limited *	Hong Kong, 14 January 2009	Hong Kong dollar ("HK$")10,000	100%	–	Investment holding
Gold Parsons International Limited ("Gold Parsons") *	BVI, 16 December 2009	United States dollar ("USD")1,783	100%	–	Investment holding
Natural Food Online Limited *	Hong Kong, 28 April 2009	HK$10,000	–	100%	Investment holding
Shenzhen Natural Food Co., Ltd. #*	PRC, 15 December 2011	HK$8,000,000	–	100%	Sale of natural health food
Tongyuan New Agricultural Development (Huanggang) Co., Ltd. #*	PRC, 19 October 2009	HK$40,000,000	–	100%	Investment holding
Hubei Fuya Food Science and Technology Co., Ltd. *	PRC, 30 March 2011	RMB20,000,000	–	100%	Manufacture and sale of natural health food
Guangxi Guiping Jingu Agricultural Development Co., Ltd. *	PRC, 1 August 2013	RMB4,000,000	–	100%	Manufacture and sale of natural health food

1. CORPORATE INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Natural Food (Guangzhou) Co., Ltd. #*	PRC, 16 March 2016	HK$135,000,000	–	100%	Manufacture and sale of natural health food
Fuya Foods Technology (Shenzhen) Co., Ltd. #*	PRC, 4 June 2009	HK$21,000,000	–	100%	Investment holding and management and administration
Shenzhen Xiangya Food Co., Ltd. *	PRC, 9 March 2007	RMB1,000,000	–	100%	Sale of natural health food
Shenzhen Changqing Food Technology Co., Ltd. *	PRC, 10 November 2010	RMB5,000,000	–	100%	Sale of natural health food

These subsidiaries were registered as wholly-owned foreign enterprises under PRC law.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Financial Statements

Year ended 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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 HKFRSs 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 revised standards are not relevant to the preparation of the Group's consolidated financial statements. The nature and impact of HKFRS 16 are described below:

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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors 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 has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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 and plant. 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

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 and included in interest-bearing bank and other borrowings. 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:

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

* Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Financial impact at 1 January 2019

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

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

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

	RMB'000
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 ended 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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9 HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group has expected that these standards will not have a significant effect on the Group's financial performance and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant, machinery and equipment	10% to 19%
Motor vehicles	19%
Office equipment and others	19% to 32%
Leasehold improvements	Shorter of estimated useful lives and remaining lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee *(Continued)*

(a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). 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. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office properties and plant	2 to 5 years
Leasehold land	50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) 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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee *(Continued)*

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of Properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

***General approach** (Continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to directors and related parties, a dividend payable, convertible and redeemable preferred shares and an interest-bearing borrowing.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the moving weighted-average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions, based on relative stand-alone selling prices. The amount allocated to the points earned by the customer loyalty program members is recognised as a contract liability until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points expire.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sale of goods

Revenue from the sale of products (mainly including natural health food) directly to customers is recognised when control of the goods has transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

The Group sells its products to end-customers via a chain of retail outlets or over third-party online retail platforms. The sales proceeds are settled by these sales channels normally in one to three months. Except for credit points granted under the customer loyalty program which are accounted for in "Customer loyalty program" above, there are no performance obligations in the contract with customers.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods to the customer, the Group needs to first identify who controls the specified goods before they are transferred to the customer. The Group is a principal who obtains control any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a good from the other party that the Group then combines with other goods in providing the specified good to the customer. If control is unclear, the Group records revenues on a gross basis when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or when there are several but not all of these indicators. Otherwise, the Group records the net amount earned as commissions from products sold provided.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in the PRC are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

The financial statements are presented in RMB. The Company's functional currency is the Hong Kong dollar, and each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised. This requires significant judgement on the tax departments of certain transactions and also assessments on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions is subject to judgement on the plan of the distribution of dividends. Such judgement is made with reference to the Group's business plan and future cash requirements outside the PRC.

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of properties due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operating activities if a replacement is not readily available.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Customer loyalty program

The amount of revenue allocated to the points earned by the members of the Group's customer loyalty program is based on the estimated stand-alone selling prices of the products and the respective loyalty points earned through the sales transactions. When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The provision for expected credit losses of trade receivables as at 31 December 2019 amounted to RMB10,650,000, details of which are set out in note 18 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the processing and selling of natural health products. Information reported to the Group's management for the purpose of resource 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. During the years ended 31 December 2018 and 2019, 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), during the years ended 31 December 2018 and 2019.

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

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers		
Sale of goods	**1,784,086**	1,818,066

	2019 **RMB'000**	2018 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**1,784,086**	1,818,066

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

	2019 **RMB'000**	2018 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	**16,669**	20,623

5. REVENUE AND OTHER INCOME AND GAINS (Continued)

	2019 RMB'000	2018 RMB'000
Other income and gains		
Government grants*	**10,550**	9,400
Other interest income	**–**	1,499
Bank interest income	**2,512**	1,206
Interest income from loans to a related party (note 32(a))	**–**	63
Income from financial assets at fair value through profit or loss	**3,335**	4,868
Commission income from provision of a sales platform	**5,789**	4,211
Others	**668**	723
	22,854	21,970

* 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):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**464,884**	427,398
Depreciation of property, plant and equipment	13	**28,873**	25,124
Depreciation of right-of-use assets	15(b)	**5,528**	–
Amortisation of land lease payments	15(a)	**–**	860
Minimum lease payments under operating leases		**–**	10,641
Lease payments not included in the measurement of lease liabilities	15(d)	**6,467**	–
Research and development costs*		**8,485**	7,243
Amortisation of intangible assets	14	**607**	660
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**168,206**	165,983
Equity-settled share option expenses		**14,821**	–
Pension scheme contributions		**18,438**	24,951
Auditors' remuneration		**1,887**	1,577
Listing expenses		**–**	32,056
Impairment of trade receivables**	18	**4,590**	3,233
Loss on disposal of items of property, plant and equipment		**335**	893
Loss on fair value changes of convertible and redeemable preferred shares	30(b)	**–**	75,706
Finance costs	7	**815**	436
Bank interest income	5	**(2,512)**	(1,206)

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

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

7. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2019 RMB'000	2018 RMB'000
Interest on a borrowing from a financial institution	**144**	241
Interest on lease liabilities	**671**	–
Interest on an amount due to a director (note 32(a))	**–**	195
	815	436

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	**720**	90
Other emoluments		
– Salaries, allowances and benefits in kind	**2,108**	1,673
– Equity-settled share option expense	**408**	–
– Pension scheme contributions	**74**	90
	2,590	1,763
	3,310	1,853

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. Zhang Senquan (note(a))	240	30
Mr. Hu Peng (note(a))	240	30
Mr. Ouyang Liangyi (note(a))	240	30
	720	90

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors and non-executive directors

2019	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Ms. Gui Changqing	994	204	37	1,235
Mr. Yang Zhuoya (note(b))	–	–	–	–
Mr. Zhang Zejun	994	204	37	1,235
	1,988	408	74	2,470
Non-executive directors:				
Mr. Wang Duo (note(c))	60	–	–	60
Ms. Tse Cheung On Anne (note(c))	60	–	–	60
Mr. NG Benjamin Jin-ping (note(d))	–	–	–	–
	120	–	–	120
	2,108	408	74	2,590

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

2018	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Ms. Gui Changqing	748	–	37	785
Mr. Yang Zhuoya (note(b))	177	–	16	193
Mr. Zhang Zejun	748	–	37	785
	1,673	–	90	1,763
Non-executive director:				
Mr. NG Benjamin Jin-ping (note(d))	–	–	–	–
	1,673	–	90	1,763

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes:

(a) Mr. Zhang Senquan, Mr. Hu Peng and Mr. Ouyang Liangyi were appointed as independent non-executive directors of the Company with effect from 19 November 2018.

(b) Mr. Yang Zhuoya resigned as a director on 7 June 2018.

(c) Mr. Wang Duo and Ms. Tse Cheung On Anne were appointed as non-executive directors of the Company with effect from 30 September 2019.

(d) Mr. NG Benjamin Jin-ping resigned as a non-executive director of the Company on 30 July 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director (2018: None). Details of the remuneration of the remaining five (2018: five) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2019 **RMB'000**	2018 RMB'000
Other emoluments		
– Salaries, allowances and benefits in kind	**8,071**	4,540
– Equity-settled share option expense	**4,621**	–
– Pension scheme contributions	**174**	179
	12,866	4,719

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2019 **RMB'000**	2018 RMB'000
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	5
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$4,500,000	**2**	–
	5	5

During the year, no remuneration was paid by the Group to non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group was not subject to any income tax in the British Virgin Islands and the Cayman Islands during the years ended 31 December 2018 and 2019.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the years ended 31 December 2018 and 2019.

Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the years ended 31 December 2018 and 2019 was 25% on their taxable profits.

During the years ended 31 December 2018 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.

The income tax expenses of the Group for the years ended 31 December 2018 and 2019 are analysed as follows:

	2019 **RMB'000**	2018 RMB'000
Current – PRC		
Charge for the year	**13,061**	16,288
Deferred (note 16)	**674**	6,106
Total tax charge for the year	**13,735**	22,394

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates are as follows:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Profit before tax	**140,065**		127,633	
Tax at the applicable statutory rate in each jurisdiction	**44,527**	**31.8**	60,439	47.4
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**2,184**	**1.6**	2,221	1.7
Income not subject to tax *	**(36,247)**	**(25.9)**	(42,601)	(33.4)
Expenses not deductible for tax	**3,271**	**2.3**	2,335	1.8
Tax charge at the effective rate	**13,735**	**9.8**	22,394	17.5

* According to *Notice of the Ministry of Finance and the State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (for Trial Implementation)* promulgated on 20 November 2008, and *Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax* issued on 11 May 2011, the income derived from the prescribed scope of preliminarily-processed agricultural products can be exempted from corporate income tax. During the years ended 31 December 2018 and 2019, Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd, had such income derived from preliminarily-processed agricultural products which was not subject to corporate income tax.

11. DIVIDENDS

At the board meeting held on 28 March 2019, the board of directors 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 totalling RMB45,012,000 was approved by the shareholders on 31 May 2019 and paid on 30 June 2019 and on 1 August 2019, respectively.

At the board meeting held on 29 August 2019, the board of directors proposed an interim dividend in respect of the period ended 30 June 2019 of RMB0.0181 per ordinary share of the Company. Such proposed dividend totalling RMB39,604,000 was paid on 25 September 2019.

The board of directors do not recommend any payment of final dividend for the year ended 31 December 2019.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

The calculation of the diluted earnings per share amount is based on the profit for the year 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 ordinary shares in issue during the year, 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.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

(Continued)

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

Earnings	**2019** **RMB'000**	2018 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**126,330**	105,239
Adjustment:		
Fair value changes of convertible and redeemable preferred shares (note 30)	**–**	75,706
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation	**126,330**	180,945

Shares	**2019**	2018
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**2,199,559,819**	1,624,552,877
Effect of dilution – weighted average number of ordinary shares:		
Convertible and redeemable preferred shares	**–**	197,362,192
Share options	**–**	–
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**2,199,559,819****	1,821,915,069*

* Because the diluted earnings per share amount would increase when taking the 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 year ended 31 December 2018 and were ignored in the calculation of diluted earnings per share.

** The share options had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2019 and were ignored in the calculation of diluted earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019 (restated):							
Cost	100,890	75,442	761	60,908	5,987	66,939	310,927
Accumulated depreciation	(23,858)	(31,934)	(711)	(37,620)	(4,158)	–	(98,281)
Net carrying amount	77,032	43,508	50	23,288	1,829	66,939	212,646
At 31 December 2018, net of accumulated depreciation and impairment	77,032	43,508	50	23,288	1,829	66,939	212,646
Additions	–	5,400	753	12,906	10,259	87,023	116,341
Disposals	–	(332)	–	(10)	–	–	(342)
Depreciation provided during the year (note 6)	(6,759)	(8,357)	(139)	(11,459)	(2,159)	–	(28,873)
At 31 December 2019, net of accumulated depreciation	70,273	40,219	664	24,725	9,929	153,962	299,772
At 31 December 2019:							
Cost	100,890	79,787	1,514	73,800	16,246	153,962	426,199
Accumulated depreciation	(30,617)	(39,568)	(850)	(49,075)	(6,317)	–	(126,427)
Net carrying amount	70,273	40,219	664	24,725	9,929	153,962	299,772

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	90,594	66,268	758	44,532	5,862	4,833	212,847
Accumulated depreciation	(17,547)	(28,534)	(694)	(27,067)	(3,257)	–	(77,099)
Net carrying amount	73,047	37,734	64	17,465	2,605	4,833	135,748
At 1 January 2018, net of accumulated depreciation	73,047	37,734	64	17,465	2,605	4,833	135,748
Additions	10,146	14,058	3	16,376	125	62,256	102,964
Transferred from construction in process	150	–	–	–	–	(150)	–
Disposals	–	(942)	–	–	–	–	(942)
Depreciation provided during the year (note 6)	(6,311)	(7,342)	(17)	(10,553)	(901)	–	(25,124)
At 31 December 2018, net of accumulated depreciation	77,032	43,508	50	23,288	1,829	66,939	212,646
At 31 December 2018:							
Cost	100,890	75,442	761	60,908	5,987	66,939	310,927
Accumulated depreciation	(23,858)	(31,934)	(711)	(37,620)	(4,158)	–	(98,281)
Net carrying amount	77,032	43,508	50	23,288	1,829	66,939	212,646

The buildings of the Group are situated in the PRC.

14. INTANGIBLE ASSETS

Software	2019 RMB'000	2018 RMB'000
Cost at 1 January, net of accumulated amortisation	**1,543**	1,717
Addition	**109**	486
Amortisation provided during the year (note 6)	**(607)**	(660)
Carrying amount at 31 December	**1,045**	1,543
At 31 December:		
Cost	**5,631**	5,522
Accumulated amortisation	**(4,586)**	(3,979)
Net carrying amount	**1,045**	1,543

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant generally have lease terms of 5 years, while properties generally have lease terms between 2 and 5 years. The other properties generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension options, which are further discussed below.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	38,360
Recognised in profit or loss during the year	(860)
Carrying amount at 31 December 2018	37,500

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Properties and plant RMB'000	Total RMB'000
As at 1 January 2019	37,500	3,847	41,347
Additions	–	22,792	22,792
Depreciation charge	(860)	(4,668)	(5,528)
As at 31 December 2019	36,640	21,971	58,611

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

Lease liabilities	**2019 RMB'000**
Carrying amount at 1 January	**2,491**
New leases	**22,792**
Accretion of interest recognised during the year	**671**
Payments	**(4,209)**
Carrying amount at 31 December	**21,745**
Analysed into:	
Current portion	**5,565**
Non-current portion	**16,180**
Carrying amount at 31 December	**21,745**

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

15. LEASES (Continued)

The Group as a lessee (Continued)

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	671
Depreciation charge of right-of-use assets	5,528
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in selling and distribution expenses and administrative expenses)	6,467
Total amount recognised in profit or loss	12,666

(e) The total cash outflow for leases is disclosed in notes 30(c) to the financial statements.

Notes to Financial Statements

Year ended 31 December 2019

16. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Depreciation allowance in excess of related depreciation RMB'000	Provision for impairment of assets RMB'000	Unrealised gains resulting from intra group transactions RMB'000	Contract liabilities RMB'000	Accruals RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2018	598	121	8,498	5,156	6,174	1,200	21,747
Effect on adoption of HKFRS 9 (note 2.2)	–	586	–	–	–	–	586
Deferred tax credited/(charged) to profit or loss during the year (note 10)	351	808	(8,280)	(989)	2,793	1,432	(3,885)
Gross deferred tax assets at 31 December 2018	949	1,515	218	4,167	8,967	2,632	18,448
At 1 January 2019	949	1,515	218	4,167	8,967	2,632	18,448
Deferred tax credited/(charged) to profit or loss during the year (note 10)	193	1,148	1,804	(1,477)	788	(946)	1,510
Gross deferred tax assets at 31 December 2019	1,142	2,663	2,022	2,690	9,755	1,686	19,958

16. DEFERRED TAX (Continued)

Deferred tax liabilities

	Withholding tax on distributable profits of the Group's PRC subsidiaries RMB'000
At 1 January 2019	**4,361**
Deferred tax charged to profit or loss during the year (note 10)	**2,184**
Settlement during the year	**(3,221)**
Gross deferred tax liabilities at 31 December 2019	**3,324**

	Withholding tax on distributable profits of the Group's PRC subsidiaries RMB'000
At 1 January 2018	16,390
Deferred tax charged to profit or loss during the year (note 10)	2,221
Settlement during the year	(14,250)
Gross deferred tax liabilities at 31 December 2018	4,361

16. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between the Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of earnings generated since 1 January 2008. Deferred taxes of RMB2,221,000 and RMB2,184,000 have been recognised for withholding taxes that would be payable on the unremitted earnings for the years ended 31 December 2018 and 2019, respectively.

The aggregate amounts of temporary differences associated with investments in subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB353,795,000 and RMB459,053,000 as at 31 December 2018 and 2019, respectively. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group had tax losses arising in Hong Kong of RMB418,000 and RMB427,000 as at 31 December 2018 and 2019, respectively. These tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

17. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Raw materials	**21,089**	26,855
Work in progress	**2,729**	2,051
Finished goods	**77,305**	81,711
Consumables	**12,834**	11,669
	113,957	122,286

18. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**217,049**	241,690
Bills receivable	**19,184**	3,972
Impairment	**(10,650)**	(6,060)
	225,583	239,602

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

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

	2019 RMB'000	2018 RMB'000
Within 1 month	**179,945**	186,513
1 to 2 months	**28,109**	22,839
2 to 3 months	**4,796**	12,815
Over 3 months	**12,733**	17,435
	225,583	239,602

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**6,060**	2,827
Impairment losses (note 6)	**4,590**	3,233
At end of year	**10,650**	6,060

18. TRADE AND BILLS RECEIVABLES (Continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. For certain trade receivables for which the counterparty failed to make demanded repayment, the Group has made 100% provision ("default receivables"). Except for the default receivables, the Group used a calculation which reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

31 December 2019	**Neither past due nor impaired**	**Less than 1 month past due**	**1 to 2 months past due**	**2 to 3 months past due**	**More than 3 months past due**	**Total**
Default receivables (RMB'000)	**86**	**–**	**105**	**48**	**7,168**	**7,407**
Expected credit loss rate	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Expected credit losses (RMB'000)	**86**	**–**	**105**	**48**	**7,168**	**7,407**
Other trade receivables (RMB'000)	**187,499**	**8,124**	**3,568**	**3,651**	**6,800**	**209,642**
Expected credit loss rate	**0.1%**	**1.0%**	**2.0%**	**5.0%**	**40.0%**	**1.5%**
Expected credit losses (RMB'000)	**188**	**81**	**71**	**183**	**2,720**	**3,243**
	274	**81**	**176**	**231**	**9,888**	**10,650**

31 December 2018	Neither past due nor impaired	Less than 1 month past due	1 to 2 months past due	2 to 3 months past due	More than 3 months past due	Total
Trade receivables (RMB'000)	193,918	15,542	12,500	6,941	12,789	241,690
Expected credit loss rate	0.1%	1.0%	2.0%	5.0%	40.0%	2.5%
Expected credit losses (RMB'000)	193	155	250	347	5,115	6,060

The loss allowance of RMB7,407,000 was made for specific trade receivables which were considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amounts in full.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Investment funds, at fair value	–	71,400

As at 31 December 2018, the Group had investment funds denominated in RMB, with expected rate of return of 3.6% per annum and maturity period of 3 months. The Group has redeemed the investment funds upon their maturity in August 2019.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**18,848**	16,754
Deposits	**5,197**	4,657
Value-added tax recoverable	**13,913**	14,401
Employee advances	**16,199**	7,982
Other receivables	**12,908**	14,769
Current portion of prepaid land lease payments	–	860
	67,065	59,423

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

The Group has applied the general approach to provide for expected credit losses for financial assets included in prepayments, other receivables and other assets under HKFRS 9. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. The Group has classified financial assets included in prepayments, other receivables and other assets in stage 1 and continuously monitors their credit risk. As at 31 December 2018 and 2019, the Group estimated that the expected loss rate for financial assets included in prepayments, other receivables and other assets was insignificant.

21. CASH AND CASH EQUIVALENTS AND DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**558,048**	604,913
Time deposits	**–**	25,000
Restricted bank deposits	**555**	–
	558,603	629,913
Less: Time deposits	**–**	(25,000)
Restricted bank deposits	**(555)**	–
Cash and cash equivalents	**558,048**	604,913
Denominated in:		
— RMB	**362,508**	252,806
— HK$	**196,095**	377,107
	558,603	629,913

The RMB is not freely convertible into other currencies, however, under 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 bank balances are deposited with creditworthy banks with no recent history of default.

22. 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:

	2019 RMB'000	2018 RMB'000
Within 1 month	**47,100**	62,491
1 to 2 months	**11,772**	6,081
2 to 3 months	**2,567**	2,057
Over 3 months	**1,826**	1,492
	63,265	72,121

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

23. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities	**10,762**	16,669

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. The changes in contract liabilities are mainly attributable to the Group's estimates of the loyalty points that will be redeemed subsequent to the end of the year.

24. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Accruals	**35,396**	37,047
Payables for purchase of materials and equipment	**4,128**	6,695
Deposits	**3,098**	1,724
Salaries and welfare payables	**62,427**	56,471
Other tax payables	**19,406**	18,162
Other payables	**9,007**	17,258
	133,462	137,357

Other payables are non-interest-bearing and repayable on demand.

25. INTEREST-BEARING BORROWING

2019	**Effective interest rate (%)**	**Maturity**	**RMB'000**
Current			
Borrowing from a financial institution	**–**	**–**	**–**

2018	Effective interest rate (%)	Maturity	RMB'000
Current			
Borrowing from a financial institution	4.7	9 March 2019	70,096

Analysed into:	**2019 RMB'000**	2018 RMB'000
Borrowing repayable:		
Within one year	**–**	70,096

The Group's loan was in Hong Kong Dollars which was borrowed from a financial institution. The loan has been fully repaid in January 2019.

26. DEFERRED INCOME

Government grants	RMB'000
At 1 January 2018	466
Addition	–
Recognised during the year	(189)
At 31 December 2018 and 1 January 2019	277
Addition	
Recognised during the year	(189)
At 31 December 2019	88

27. SHARE CAPITAL

	2019 **RMB'000**	2018 RMB'000
Issued and fully paid:		
2,193,014,000 (2018: 2,221,000,000) ordinary shares	**147**	149

27. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital is as follows:

		Number of ordinary shares	Share capital
			RMB'000
At 1 January 2018		15,918	106
Share split		1,591,784,082	–
Issuance of ordinary shares upon listing		421,000,000	29
Conversion from preferred shares		208,200,000	14
At 31 December 2018 and 1 January 2019		2,221,000,000	149
Shares repurchased	(a)	(29,000,000)	(2)
Share options exercised	(b)	1,014,000	–
At 31 December 2019		2,193,014,000	147

(a) The Company repurchased a total of 33,500,000 of its shares on the Hong Kong Stock Exchange at a total consideration of RMB46,124,000 during the year. 29,000,000 shares repurchased were cancelled during the year.

(b) The subscription rights attaching to 1,014,000 share options were exercised at the subscription price of HK$1.468 per share (note 28), resulting in the issue of 1,014,000 shares for a total cash consideration, before expenses, of RMB1,310,000. An amount of RMB439,000 was transferred from the share option reserve to share premium upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. 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 total number of shares of the Company which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders. The maximum number of shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issued or to be issued upon exercise of share options granted to any one participant in a 12-month period shall not exceed 1% (or 0.1% for any substantive shareholder, independent non-executive director or other associates, see the paragraph below) of the issued shares of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a non-refundable nominal consideration of HK$1.00 by each grantee. The Share Option Scheme does not specify any minimum holding period but the board of directors has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 11 December 2028.

The exercise price of a share option to subscribe for shares of the Company is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

28. SHARE OPTION SCHEME (Continued)

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

	Date of grant	Numbers of share options: At 1 January 2019	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2019	Exercise period (both dates inclusive)	Exercise price per share
i	12/06/2019	–	13,860,000	–	(1,080,000)	12,780,000	12/06/2020–11/12/2028	HK$1.468
ii	12/06/2019	–	22,000,000	–	(3,000,000)	19,000,000	12/12/2019–11/12/2028	HK$1.468
iii	12/06/2019	–	23,159,823	(1,014,000)	(1,882,474)	20,263,349	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	(1,014,000)	(5,962,474)	67,043,349		

The fair value of the share options granted during 2019 was RMB34,380,000, of which the Group recognised a share option expense of RMB15,229,000 during the year ended 31 December 2019.

28. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Principal valuation parameter	As at 12 June 2019
Share price (HK$ per share)	1.40
Exercise price (HK$ per share)	1.468
Risk-free interest rate (%)	1.66
Expected life of options (years)	9.50
Expected volatility (%)	40.63
Expected dividend yield (%)	0.75
Early exercise behaviour	280% of the exercise price for share options granted to directors, 220% of the exercise price for share options granted to employees

The expected life of the share options is the contractual life to maturity of the share options, and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 1,014,000 share options exercised during the year resulted in the issue of 1,014,000 ordinary shares of the Company and new share capital of HK$79 (before issue expenses), as further detailed in note 27 to the financial statements.

At 31 December 2019, the Company had 67,043,349 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 67,043,349 additional ordinary shares of the Company and additional share capital of RMB4,677 (before issue expenses).

At the date of approval of these financial statements, the Company had 66,455,678 share options outstanding under the Scheme, which represented approximately 3.0% of the Company's shares in issue as at that date.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity on page 68 of this report.

(a) Share premium

The share premium represents the difference between the par value of the shares issued and the consideration paid.

(b) Merger reserve

The merger reserve represents the difference between the aggregate of the paid up share capital of the subsidiaries and the consideration paid by the Group for the business combination under common control.

(c) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

(d) Statutory surplus reserve

In accordance with the Company Law of the PRC, each of the Company's subsidiaries registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with PRC Generally Accepted Accounting Principles, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB22,792,000 and RMB22,792,000, respectively, in respect of lease arrangements for plant and properties (2018: Nil).

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities

	Bank and interest-bearing borrowings RMB'000	Convertible and redeemable preferred shares RMB'000	Lease liabilities RMB'000	Amounts due to directors RMB'000	Amounts due to related parties RMB'000
At 1 January 2018	–	222,287	–	2,341	35,495
Proceeds from a loan	246,106	–	–	–	–
Accretion of interest expenses	241	–	–	–	–
Repayment of a loan	(176,388)	–	–	–	–
Changes in fair value	–	75,706	–	–	–
Conversion to ordinary shares	–	(297,993)	–	–	–
Changes from operating cash flows	–	–	–	(2,341)	(2,059)
Increase from financing cash flows	–	–	–	13,028	–
Decrease from financing cash flows	–	–	–	(13,028)	(33,436)
Exchange realignment	137	–	–	–	–
At 31 December 2018	70,096	–	–	–	–
Effect of adoption of HKFRS 16	–	–	2,491	–	–
At 1 January 2019 (restated)	70,096	–	2,491	–	–
Additions to lease liabilities	–	–	22,792	–	–
Accretion of interest expenses	144	–	671	–	–
Principal elements of lease payments	–	–	(4,209)	–	–
Repayment of a loan	(69,567)	–	–	–	–
Exchange realignment	(673)	–	–	–	–
At 31 December 2019	–	–	21,745	–	–

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(c) The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 **RMB'000**
Within operating activities	**2,983**
Within financing activities	**4,209**
	7,192

31. COMMITMENTS

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

	2019 **RMB'000**	2018 RMB'000
Capital commitments	**36,620**	104,034

As at 31 December 2018 and 2019, the amounts of the capital commitments were related to the purchase of property, plant and equipment.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties under operating lease arrangements. Leases for office were for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	4,464
In the second to fifth years	261
	4,725

32. 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 year:

(1) Sales of goods to a related party:

	2019 RMB'000	2018 RMB'000
Shenzhen Jingya Natural Food Science and Technology Co., Ltd. ("Shenzhen Jingya")	**1,248**	2,332

The sales prices offered to the related party 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. Shenzhen Jingya purchased goods from the Group during the years of 2018 and 2019.

(2) Services from a related party:

	2019 RMB'000	2018 RMB'000
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:

	2019 RMB'000	2018 RMB'000
Mr. Yang Changya	**–**	63

Mr. Yang Changya is the brother of Mr. Yang Zhuoya, a former director of the Company. The amount of RMB3,000,000 due from Mr. Yang Changya was unsecured, interest-bearing at a rate of 5% per year, non-trade in nature and fully repaid in May 2018.

32. 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 year: (Continued)

(4) Finance costs to a related party:

	2019 **RMB'000**	2018 RMB'000
Ms. Gui Changqing	**–**	195

(b) Other transactions with directors

During the years of 2018 and 2019, the Group has entered into an intellectual property licence agreement with Ms. Gui Changqing. 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.

(c) Outstanding balances with related parties

(1) Amount due from a director:

	2019 **RMB'000**	2018 RMB'000
Mr. Zhang Zejun	**6**	–

The balance is non-interest-bearing.

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties (Continued)

(2) Amount due from a related party:

	2019 RMB'000	2018 RMB'000
Shenzhen Jingya	**10,802**	9,375

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

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

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**2,828**	1,763
Post-employment benefits	**74**	90
Equity-settled share option expense	**408**	–
	3,310	1,853

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

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.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss RMB'000
Trade and bills receivables	225,583
Financial assets included in prepayments, other receivables and other assets	18,105
Amount due from a related party	10,802
Cash and cash equivalents	558,048
Restricted bank deposits	555
	813,093

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	63,265
Financial liabilities included in other payables and accruals	8,102
Lease liabilities	21,745
	93,112

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2018

Financial assets

	Financial assets at fair value through profit or loss		
	Designated as such upon initial recognition	Financial assets amortised cost	Total
	RMB'000	RMB'000	RMB'000
Trade and bills receivables	–	239,602	239,602
Financial assets included in prepayments, other receivables and other assets	–	19,426	19,426
Amount due from a related party	–	9,375	9,375
Time deposits	–	25,000	25,000
Cash and cash equivalents	–	604,913	604,913
Financial assets at fair value through profit or loss	71,400	–	71,400
	71,400	898,316	969,716

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade payables	72,121
Financial liabilities included in other payables and accruals	18,280
Interest-bearing borrowing	70,096
	160,497

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2018 and 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, restricted bank deposits, trade and bills receivables, financial assets included in prepayments, other receivables, amounts due from related parties, financial liabilities included in other payables and accruals and trade payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

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. The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China and investment funds issued by the financial institution. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

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 31 December 2019			
Financial assets at fair value through profit or loss	–	–	–
As at 31 December 2018			
Financial assets at fair value through profit or loss	–	71,400	–

During the year, 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in exchange rate, with all other variables held constant, of the Group's profit before tax and equity.

	Increase/ (decrease) in exchange rate (%)	**Increase/ (decrease) in profit before tax and equity** RMB'000
2019		
If RMB weakens against HK$	5	9,797
If RMB strengthens against HK$	(5)	(9,797)
2018		
If RMB weakens against HK$	5	14,906
If RMB strengthens against HK$	(5)	(14,906)

Credit risk

The Group sells its products to end-customers via a chain of retail outlets or over third-party online retail platforms. It is the Group's policy that all sales channels who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, restricted bank deposits, deposits and other receivables, and amounts due from a director and a related party, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables*	–	–	–	236,233	236,233
Financial assets included in prepayments, other receivables and other assets					
– Normal#	18,105	–	–	–	18,105
Amount due from a related party					
– Normal#	10,802	–	–	–	10,802
Cash and cash equivalents					
– Not yet past due	558,048	–	–	–	558,048
Restricted bank deposits					
– Not yet past due	555	–	–	–	555
	587,510	–	–	236,233	823,743

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables*	–	–	–	245,662	245,662
Financial assets included in prepayments, other receivables and other assets					
– Normal#	19,426	–	–	–	19,426
Amount due from a related party					
– Normal#	9,375	–	–	–	9,375
Time deposits					
– Not yet past due	25,000	–	–	–	25,000
Cash and cash equivalents					
– Not yet past due	604,913	–	–	–	604,913
	658,714	–	–	245,662	904,376

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 to the financial statements.

\# The credit quality of the financial assets included in prepayments, other receivables and other assets, and amount due from a related party is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging *(Continued)*

Since the Group trades only with the end-customers, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical regions. There are no significant concentrations of credit risk within the Group as the sales channel bases of the Group's trade receivables are widely dispersed in a large number of diversified retail outlets or third-party online retail platforms.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in notes 18 and 20 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	47,100	14,339	1,826	–	–	63,265
Lease liabilities	–	1,879	4,833	17,564	–	24,276
Financial liabilities included in other payables and accruals	7,226	876	–	–	–	8,102
Interest-bearing borrowing	–	–	–	–	–	–
	54,326	17,094	6,659	17,564	–	95,643

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	62,491	8,138	1,492	–	–	72,121
Financial liabilities included in other payables and accruals	8,419	9,861	–	–	–	18,280
Interest-bearing borrowing	–	70,710	–	–	–	70,710
	70,910	88,709	1,492	–	–	161,111

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting periods.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt includes interest-bearing borrowing and lease liabilities. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2019 RMB'000	**1 January 2019** RMB'000 (note)	**31 December 2018** RMB'000
Interest-bearing borrowing	–	70,096	70,096
Lease liabilities	21,745	2,491	–
Total debts	21,745	72,587	70,096
Total assets	1,355,402	1,403,767	1,401,276
Gearing ratio	2%	5%	5%

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase of RMB2,491,000 in the Group's net debt on 1 January 2019.

36. EVENTS AFTER THE REPORTING PERIOD

The outbreak of the novel coronavirus ("COVID-19"), first reported in December 2019, continues to spread across the world. On 11 March 2020, the World Health Organisation declared the outbreak a global pandemic.

The COVID-19 situation has certain impact on the business operations of the Group. The operation of Hubei Fuya Food Science and Technology Co., Ltd., which is a subsidiary of the Company located in Huanggang of Hubei Province, has been suspended after the statutory holidays for Chinese New Year as part of the Chinese government's countermeasures in containing the COVID-19 outbreak. Revenue derived from the offline concessionary counters was affected by the travel restrictions and reduction of business hours. With the COVID-19 situation gradually being brought under control in China, the Group resumed the production in Huanggang, Hubei on 14 March 2020, which was in compliance with local government's approval.

The Group will closely monitor the potential impacts, and inform the shareholders if the outbreak of COVID-19 causes any material adverse impact on the business operations and financial conditions of the Group.

Given the dynamic nature of these circumstances, the related impact on our Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**97,306**	86,990
Total non-current assets	**97,306**	86,990
CURRENT ASSETS		
Amount due from a director	**6**	–
Amounts due from subsidiaries	**461,602**	433,363
Cash and cash equivalents	**119,345**	286,104
Total current assets	**580,953**	719,467
CURRENT LIABILITIES		
Amounts due to subsidiaries	**7,822**	6,192
Other payables	**1,159**	8,999
Interest-bearing borrowing	**–**	70,096
Total current liabilities	**8,981**	85,287
NET CURRENT ASSETS	**571,972**	634,180
TOTAL ASSETS LESS CURRENT LIABILITIES	**669,278**	721,170
NET ASSETS	**669,278**	721,170
EQUITY		
Share capital	**147**	149
Treasury shares	**(6,359)**	–
Reserves (note)	**675,490**	721,021
Total equity	**669,278**	721,170

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	365,289	–	(1,809)	(428,370)	(64,890)
Profit for the year	–	–	–	165,899	165,899
Translation from functional currency to presentation currency	–	–	(16,932)	–	(16,932)
Total comprehensive income for the year	–	–	(16,932)	165,899	148,967
Conversion of preferred shares (note 27)	297,979	–	–	–	297,979
Issue of shares for the IPO	602,542	–	–	–	602,542
Share issue expenses	(43,506)	–	–	–	(43,506)
Special dividend declared to shareholders	–	–	–	(220,071)	(220,071)
At 31 December 2018	1,222,304	–	(18,741)	(482,542)	721,021
Profit for the year	–	–	–	47,136	47,136
Translation from functional currency to presentation currency	–	–	15,763	–	15,763
Total comprehensive income for the year	–	–	15,763	47,136	62,899
Shares repurchased and cancelled	(39,763)	–	–	–	(39,763)
Equity-settled share option arrangements	–	15,229	–	–	15,229
Share options exercised	1,750	(440)	–	–	1,310
Share issue expenses	(590)	–	–	–	(590)
Final 2018 dividend declared	–	–	–	(45,012)	(45,012)
Interim 2019 dividend	(39,604)	–	–	–	(39,604)
At 31 December 2019	1,144,097	14,789	(2,978)	(480,418)	675,490

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

Financial Summary

CONSOLIDATED RESULTS

	Note	FY2019 RMB'000	FY2018 RMB'000	FY2017 RMB'000	FY2016 RMB'000	FY2015 RMB'000
Revenue		**1,784,086**	1,818,066	1,576,145	1,205,504	937,085
Cost of sales		**(464,884)**	(427,398)	(374,325)	(276,983)	(248,820)
Gross profit		**1,319,202**	1,390,668	1,201,820	928,521	688,265
Other income and gains		**22,854**	21,970	15,624	14,604	10,002
Selling and distribution expenses		**(1,092,422)**	(1,070,944)	(926,094)	(734,772)	(567,228)
Administrative expenses		**(102,905)**	(133,161)	(85,603)	(69,584)	(39,938)
Impairment loss on financial assets		**(4,590)**	(3,233)	(344)	–	–
Other expenses		**(1,259)**	(1,525)	(876)	(2,179)	(1,730)
Finance costs		**(815)**	(436)	(216)	(964)	–
Loss on fair value changes of convertible and redeemable preferred shares		**–**	(75,706)	(2,196)	(27,102)	(56,074)
Profit before tax		**140,065**	127,633	202,115	108,254	33,297
Income tax expenses		**(13,735)**	(22,394)	(16,416)	(20,647)	(4,618)
Profit for the year		**126,330**	105,239	185,699	87,607	28,679
Attributable to:						
Owners of the parent		**126,330**	105,239	185,699	87,607	28,679
Adjusted net profit	1	**126,330**	213,001	188,461	115,130	85,174

Note 1: Adjusted net profit represents profit for the year before loss on fair value changes of convertible and redeemable preferred shares and listing expenses. Adjusted net profit is not a standard measure under HKFRSs. To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Group has presented adjusted net profit as an additional measure to evaluate the financial performance of the Group by considering the impact of certain items that the Group believes is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry that the Group operates and by eliminating the impact of certain unusual and non-recurring item that the Group does not consider indicative of the performance of the Group's business.

Financial Summary

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December,				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,355,402**	1,401,276	868,281	690,041	557,924
Total liabilities	**265,561**	328,451	511,205	638,169	519,882
Total equity	**1,089,841**	1,072,825	357,076	51,872	38,042

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"2020 AGM"	the annual general meeting of the Company to be held on 29 May, 2020
"AGM"	annual general meeting of the Company
"Articles" or "Articles of Association"	the articles of association of the Company as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board"	our board of Directors
"Biostime"	Biostime International Holdings Limited（合生元國際控股有限公司）, an exempted company incorporated with limited liability under the laws of the Cayman Islands on April 30, 2010, the shares of which are listed on the Stock Exchange (stock code: 1112)
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"CG Code"	the Corporate Governance Code as contained in Appendix 14 to the Listing Rules
"Company" or "our Company"	Natural Food International Holding Limited（五谷磨房食品國際控股有限公司）(formerly known as Roomy Development Holdings Limited), a limited liability company incorporated under the laws of the BVI on November 30, 2009 and registered by way of continuation to the Cayman Islands on May 11, 2018 as an exempted company with limited liability under the laws of the Cayman Islands
"Deed of Non-competition"	a deed of non-competition entered into by Mr. Zhang and Natural Capital and our Company dated 22 November 2018 regarding non-competition undertakings given by Mr. ZHANG Zejun and Natural Capital in favor of our Company
"Director(s)"	The director(s) of the Company or any one of them

Definitions

"Global Offering"	the Hong Kong public offering and the international offering of Shares as described in the Prospectus
"Group"	the Company and its subsidiaries
"Guangzhou Natural Food"	Natural Food (Guangzhou) Co., Ltd. (五谷磨房（廣州）食品有限責任公司), a company established under the laws of the PRC on March 16, 2016 and an indirect wholly-owned subsidiary of the Company
"HK$"	Hong Kong dollars and cents, both are the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Date"	12 December 2018, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Natural Capital"	Natural Capital Holding Limited, a limited liability company incorporated under the laws of the BVI on June 3, 2011, which is wholly-owned by Paddy Aroma Investment Limited under the Zhang Family Trust (which Mr. ZHANG Zejun is the settlor) and is the controlling Shareholder of the Company
"Natural Food HK"	Natural Food International Group Limited 五谷磨房食品集團有限公司 (formerly known as Natural Food International Group Limited 香雅國際集團有限公司), a limited liability company incorporated under the laws of Hong Kong on January 14, 2009 and a direct wholly-owned subsidiary of the Company
"Prospectus"	the prospectus of the Company dated 29 November 2018
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the year ended 31 December 2019

Definitions

"SFO"	Securities and Futures Ordinance (Chapter 571 of The Laws of Hong Kong)
"Share Option"	the share options granted under the Share Option Scheme
"Share Option Scheme"	the share option scheme that the Company conditionally adopted pursuant to a resolution passed by our Shareholders on November 19, 2018
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	common shares in the capital of our Company with nominal value of US$0.00001 each
"Shenzhen Fuya"	Fuya Foods Technology (Shenzhen) Company Limited（馥雅食品科技（深圳）有限公司）, a company established under the laws of the PRC on June 4, 2009 and an indirect wholly-owned subsidiary of the Company
"Shenzhen Xiangya"	Shenzhen Xiangya Foods Company Limited（深圳市香雅食品有限公司）, a company established under the laws of the PRC on March 9, 2007 and an indirect wholly-owned subsidiary of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited