



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

2021

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Ms. GUI Changqing

Mr. ZHANG Zejun

### Non-executive Directors

Ms. TSE Cheung On Anne

Mr. WANG Duo

### Independent Non-executive Directors

Mr. ZHANG Senquan

Mr. HU Peng

Mr. OUYANG Liangyi

## AUDIT COMMITTEE

Mr. ZHANG Senquan (Chairman)

Mr. HU Peng

Mr. OUYANG Liangyi

## REMUNERATION COMMITTEE

Mr. HU Peng (Chairman)

Mr. ZHANG Senquan

Mr. OUYANG Liangyi

## NOMINATION COMMITTEE

Mr. OUYANG Liangyi (Chairman)

Ms. GUI Changqing

Mr. HU Peng

## COMPANY SECRETARY

Mr. CHAN Yik Pun, HKICPA

## HONG KONG LEGAL ADVISOR

Jingtian & Gongcheng LLP

Suites 3203-3207

Edinburgh Tower

The Landmark

15 Queen's Road

Central

Hong Kong

## 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

Suite 2703, 27th Floor, Shui On Centre

6-8 Harbour Road, Wanchai

Hong Kong

## REGISTERED OFFICE

Maples Corporate Services Limited

PO Box 309, Ugland House

Grand Cayman, KY1-1104

Cayman Islands

## COMPANY'S WEBSITE

<http://www.szwgmf.com>

## AUDITORS

Ernst & Young

Certified Public Accountants

## 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,

Time flies and I can't believe it has been another year.

In 2021, the complex and ever changing situation of COVID-19 intensified the variations in the business environment and the market of consumer goods. The online consumption behaviours developed by consumers during the epidemic period retained, thus facilitating a continuous booming of online consumption pattern. On the other hand, offline physical stores were struggled for in-store business because of the sudden drop in the number of people visiting the stores. However, given the convenient nature, a number of offline channels featuring near-field sales developed rapidly at an astonishing rate.

In this challenging year, thanks to our nimble response, we developed vigorously and moved forward steadily. We achieved sustained and rapid development of online business, and enabled a continuous recovery of offline business as well as a breakthrough in new channel business. Our exciting achievements managed to further enhance our brand awareness and reputation as a result.

## **Continuous upgrade of e-commerce channel operation strategy to boost a higher growth**

Leveraging our remarkable operational capabilities and strong brand power, we successfully maintained our No. 1 position in the natural grain powder category on Tmall for a number of years in a row. Benefiting from this acknowledgement, the Company was able to maintain long-term, good and close cooperation relationship with e-commerce platforms and was allocated with high-quality promotion resources by those platforms. We also implemented distinctive sales strategies in line with different Chinese festivals and platform events, and achieved outstanding performance in major sales festivals, namely "618" and "Singles' Day".

In addition, we sensed the uprising of social media e-commerce, and began to deploy resources for active participation in the early stage, so that we could timely seize the booming trend of the rapid development of social media e-commerce. In 2021, our Douyin store was shortlisted in the top five case study for the operation of food product brand name for the "Singles' Day".

## **Results of the strategy of "simplification + efficiency" in the concessionaire business emerged**

In the face of the impact of COVID-19 on offline business operations, we actively responded and adopted the strategy of "simplification + efficiency" to continue to resume the offline concessionaire operation. Thanks to our strategy, despite the year-on-year decrease in the number of concessionaire counters in 2021, we still recorded a year-on-year increase of 22.3% in single-store efficiency.

In addition, in respect of sales strategy, we focused on long-term products by controlling discounts on these products and increasing the sales of products with a higher margin. During festivals and holidays with large customer traffic, we organized promotional activities featuring simplicity, popularity and efficiency while controlling discounts and making use of products with a higher margin to stimulate holiday sales.

# Chairman's Statement

## Breakthrough achieved by new channel business

We have been deploying new channel business since the end of 2020, and with efforts in organization, preparation and systematic management for nearly half a year, we officially launched the new channel business in the third quarter of 2021. Notwithstanding the short development history, our products showed promising product potential and brand foundation in terms of progress and dynamic sales performance. Capitalizing on these strengths, we were able to know more about the consumer profile of the new channel business.

In light of the considerable number of business models covered by the new channel, we determined the order of priority of these channels. We prioritized the development of key channels while actively exploring opportunities for other channels for a multi-discipline attempt.

## PROSPECTS

2022 marks the sixteenth anniversary of "Natural Food". We have realized a variety of changes in our development while upholding our mission of "producing healthy food that is safe to be consumed by elder parents and young children". We embrace challenges along our way and strive for betterment. We will always persist and insist on our commitment, and tackle the challenges actively. Looking ahead, we will continue to focus on the strategy of natural, healthy and additive-free cereal nutrition food and expand our e-commerce business vigorously while expanding diversified sales channels and developing our offline counters.

## APPRECIATION

Last but not the least, on behalf of the Board, I would like to extend our sincerest gratitude to our Shareholders, investors and business partners for their continuous trust and support. Also, I would like to express my heartfelt gratitude to our Directors, management and staff for their invaluable contribution during the year.

### GUI Changqing

*Chairman*

28 March 2022

# Management Discussion and Analysis

## BUSINESS REVIEW

In 2021, the economic environment was extremely complex, and the recurrence of the pandemic exceeded expectations, causing disruption to the continuous economic recovery. Against this backdrop, China's fast-moving consumer goods market remained active, demonstrating the resilience of the consumer market.

Facing the challenges of an objective environment, in 2021, the Group has steadily developed its e-commerce business in accordance with the medium and long-term development strategy plan, actively promoted the recovery of the offline concessionary counters business, actively explored new opportunities for the offline channel business, and strengthened brand building at the same time, so as to provide continuous momentum for the Group's long-term business development.

In 2021, the operating results of the Group continued to improve, with revenue increasing by 11.9% year-on-year to RMB1,610.3 million; net profit recorded a turnaround of RMB86.5 million (corresponding period in 2020: loss of RMB14.5 million).

## SALES CHANNELS

In the rapidly changing retail trade environment under the COVID-19 pandemic, the Group actively explored other offline sales models while vigorously developing e-commerce business and actively promoting the recovery of offline concessionary counters business. For the twelve months ended 31 December 2021, the Group's revenue contribution from online channels increased by 7.8% to 36.5% as compared to the corresponding period in 2020, and revenue generated from offline channels accounted for 63.5% (the corresponding period in 2020: 71.3%).

# Management Discussion and Analysis

## E-COMMERCE CHANNELS

In 2021, the Group's e-commerce channel realised a total revenue of RMB587.4 million, representing an increase of 42.1% over the same period last year.

The expansion and cultivation of online channels represented by traditional e-commerce platforms have always been one of the most important sales strategies of the Group. As the first brand in the natural grain powder category on the Tmall platform, we have maintained a long-term good and healthy relationship with the platform. At the same time, we used the brand as the fulcrum to leverage abundant platform resources to promote our products more efficiently. In 2021, we achieved excellent performance in key marketing festivals such as "6.18", "11.11" and "12.12" Festivals. Our best-selling e-commerce product "Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)" realised an annual GMV of approximately RMB290 million, maintaining its position as the No. 1 natural grain powder product in the entire network. In addition, the new sesame pills (芝麻丸) also performed well, realising an annual GMV of approximately RMB130 million, showing the explosive potential of the product.

With remarkable results achieved on the traditional e-commerce platform, we acutely captured the opportunities arising from the rapid development of emerging social e-commerce platforms, including Douyin Store and Kuaishou (快手). Through various forms of video/graphics with rich contents, as well as live-stream sales, we utilised the extensive appeal of many well-known artists, key opinion leaders (KOLs) and key opinion consumers (KOCs) to trigger extensive consumer discussion on the "Wugu Mofang (五谷磨房)" brand and products, to continuously consolidate and deepen the health attributes of our "Grain Nutrition Expert Brand (谷物营养专家品牌)" and enhance the brand's favourability and recognition. As a result, Wugu Mofang achieved sales revenue of approximately RMB130 million through social e-commerce channels, including Douyin Store and Kuaishou (快手).

While recording satisfactory sales results, the Group successfully replicated its experience in e-commerce operation to social e-commerce. The Wugu Mofang Douyin Store was selected as one of the five major cases of "11.11" Festival food brand operation, and its operating results were shared. During the "11.11" Festival, the Group's Douyin Store topped Douyin's traditional nutritional supplements list for seven consecutive days, and the brand's accumulative exposure during the event exceeded 335 million times.



# Management Discussion and Analysis

## OFFLINE CHANNELS

The Group's offline channels mainly include the direct-operated concessionary counters business in supermarkets and the channel business based on the distribution model.

### Concessionary Counters Business

Since its establishment, the Group has been selling through on-site milling of cereal nutrition powder by opening counters in a chain of large supermarkets. Over the years, offline counters have become one of the important sales channels of the Group while helping the brand to form strong recognition among consumers, thereby becoming an important window of face-to-face communication between the Group and consumers.

The offline commerce and retail environment then showed a considerable performance difference under the continuous impact of the COVID-19 pandemic. In view of this, the Group timely adopted the “*streamlining + efficiency improvement*” strategy to reduce the number of counters while increasing the unit yield of counters. After the continuous operation, the performance of the counters business has become stable. As of 31 December 2021, the Group had 2,464 concessionary counters nationwide, representing a year-on-year decrease of 22.3%. Benefitting from the effective implementation of the “*streamlining + efficiency improvement*” strategy, our concessionary counters has recorded a sales revenue of RMB1,022.9 million, representing a slight year-on-year decrease of 0.2%.

Meanwhile, we have also observed that the COVID-19 pandemic has left a far-reaching impact on the offline business environment, especially the significant trend of declining consumer traffic in hypermarkets. Given the recent resurgence of the COVID-19 pandemic in certain regions in Mainland China, we believe that the impact of the pandemic on the offline business environment is uncertain. Still, the Group will continue to operate offline counters from a long-term perspective. At the same time, the Group will extend the life cycle of consumers by effective membership management mechanism, in order to increase their consumption and repeated purchase rate.

Leveraging the extensive use and penetration of the WeChat platform in consumers' daily lives and consumption, we are skilled in using this platform to achieve efficient consumer management. Benefitting from the Company's mature experience in consumer operation and management and extensive consumer information database, we strive to bring more brand added value to consumers by using various platform tools to provide consumers with diverse and theme rich brands and healthy life-related information.

# Management Discussion and Analysis

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

	<b>Twelve months ended 31 December 2021</b>	Twelve months ended 31 December 2020
At the beginning of the year	<b>3,171</b>	3,399
Add: newly opened counters	<b>144</b>	341
Less: closed counters	<b>(851)</b>	(569)
<b>Total concessionary counters</b>	<b>2,464</b>	3,171

## Channel Business

Since the end of 2020, the Group has also actively explored opportunities in other channel businesses, including the distribution model. After initial preparation for several months, the Group has substantially completed the team building and arrangement for channel products, in the second half of 2021, it actively promoted sales in key terminals. As of 31 December 2021, the Group achieved a sales revenue of RMB23.3 million from channel business, achieving zero breakthroughs.

## Products

“Homology of medicine and food (藥食同源)” and “natural, healthy and without additives (天然健康無添加)” is the product concepts the Group has been adhered to since its incorporation. Through the in-depth development of advantageous raw materials, the Group has broken the category barriers and expanded the consumption scenarios, providing consumers with a wide range of products, including cereal nutrition powder, new Chinese nutritional products, dietary and healthy snacks.

In 2021, we took the lead in launching the black nutrition expert brand “Black Nutrition (黑之養)” on the e-commerce channels, which quickly attracted customers with black food’s wide recognition, consensus and popularity in the traditional Chinese food culture, coupled with distinctive packaging and publicity. In the future, we will continue to focus on building the “Black Nutrition (黑之養)” brand, and introduce the brand to other channels in addition to e-commerce channels, to provide consumers with black grain nutrition food including “Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)”, “Black Sesame Pills (黑芝麻丸)” and “Black Soy Pulp Powder (黑豆漿粉)”.

# Management Discussion and Analysis

## BRAND BUILDING

In 2021, reshaping the brand mentality of “Wugu Mofang” (五谷磨房) among consumers, and building a brand moat was an important matter for the Group in brand work.

The Group carried out content and diversified communication with all social/e-commerce channels, including Taobao Station (淘寶站), Xiaohongshu (小紅書) and Weibo (微博), to change consumers’ previous blurred impression of the brand and establish a clearer brand image of “good ingredients, no additives and more professional (好食材、無添加、更專業)”.

In addition, the Group also actively carried out in-depth cooperation with well-known experts in nutrition and health industries to build a brand moat with professionalism and craftsmanship.

Moreover, the brand communication of “Wugu Mofang” (五谷磨房) continued to penetrate new generation groups, and cultivate new users with the goal of making the classic brand “Wugu Mofang (五谷磨房)” fashionable. In 2021, we engaged Ms. Guan Xiaotong, a well-known actress, as the brand ambassador of “Wugu Mofang (五谷磨房)” to arouse a new brand image and convey the brand’s affinity, reliability and vitality.

In addition, we actively delivered the health, convenience and fashion attributes of our products to consumers through social media platforms such as Douyin (抖音) and Xiaohongshu (小紅書). Through content marketing such as theme promotion, celebrity, KOL and KOC interaction, the popularity and discussion of related products have significantly increased on the Internet.

## OUTLOOK

Looking ahead to 2022, despite the ongoing recovery of macroeconomic indicators, the effects of the COVID-19 pandemic will remain. In particular, the offline department store operation is disrupted, and consumer traffic has not yet returned to the level before the outbreak of the COVID-19 pandemic. In addition, the COVID-19 pandemic has fueled the reformation of the entire consumption industry, including the food and beverage sector as well as the retail sector. In terms of channels, retailers have raced to increase their investments in online businesses and O2O businesses, so as to cope with the changing consumption habits of consumers. In terms of products, there are increasingly more sub-categories being penetrated. Thus, a large number of potential products will be launched. Against such background, the Group has contemplated its own current advantages, the existing challenges and the breakthroughs it should seek for, and formulated its medium- and long-term development strategy of “consolidate the main business, expand channels and diversity products (夯實主幹、拓展渠道、拓品類)” to resolutely continue to consolidate the cereal nutrition powder as our core advantageous category and target offline concessionary counters as our fundamental development focus while acutely seizing and actively expanding new channels and opportunities of new categories, to provide continuous momentum for the long-term development of the Company.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

The Group sells its products through an extensive network of offline concessionary counters, self-operated WeChat member stores and channel networks as well as online channels, including major e-commerce platforms. The following table sets out details 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 indicated:

	For the year ended 31 December			
	2021 RMB'000	%	2020 RMB'000	%
<b>Offline channels</b>	<b>1,022,877</b>	<b>63.5</b>	1,025,060	71.3
Offline concessionary counter	<b>997,967</b>	<b>62.0</b>	1,024,298	71.2
New channel business	<b>24,910</b>	<b>1.5</b>	762	0.1
<b>Online channels</b>	<b>587,445</b>	<b>36.5</b>	413,487	28.7
E-commerce platforms	<b>587,445</b>	<b>36.5</b>	413,487	28.7
<b>Total</b>	<b>1,610,322</b>	<b>100.0</b>	1,438,547	100.0

For the year ended 31 December 2021, the absolute amount of revenue generated from sales through its offline and online channels increased as compared to the year ended 30 December 2020, which was attributed to the increase in the revenue generated from online channels mitigated by the decrease in the revenue generated from offline channels.

The decrease in sales through offline channels was mainly attributable to the adoption of a "streamlining + efficiency improvement" strategy for offline concessionary counters, which reduced the number of offline concessionary counters while increasing the average revenue of each offline concessionary counters.

Revenue generated from sales through online channels increased, which was mainly due to (i) the successful promotion of the black nutrition expert brand "Black Nutrition (黑之養)" and the star product named "Walnut Sesame Black Bean Powder (核桃芝麻黑豆粉)"; (ii) in addition to maintain the operation of the existing online channels, the e-commerce team also established and operated online stores (e.g. Douyin stores) on new social e-commerce platforms, it allowed the Group to reach a wider customer base and significantly increased the revenue generated from online channels.

As a percentage to the total revenue, revenues generated from sales through the offline channels decreased from 71.3% in 2020 to 63.5% in 2021, while revenue generated from sales through the online channels increased from 28.7% in 2020 to 36.5% in 2021.

# Management Discussion and Analysis

## Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 9.2% from RMB432 million for the year ended 31 December 2020 to RMB471.9 million for the year ended 31 December 2021, which was mainly attributable to (i) an increase in sales volume and production volume that led to the increase in raw material cost, packing and other material cost, direct labor cost and manufacturing cost; (ii) a decrease in the changes in inventories of finished foods and work-in-progress. Gross profit for the Group increased from approximately RMB1,006.6 million for the year ended 31 December 2020 to approximately RMB1,138.4 million for the year ended 31 December 2021. The gross profit margin increased from 70% for the year ended 31 December 2020 to 70.7% for the year ended 31 December 2021, due to the increase in percentage of revenue derived from products with higher gross profit margin.

## Other Income and Gains

Other income and gains of the Group increased by RMB2.3 million from approximately RMB9.9 million for the year ended 31 December 2020 to approximately RMB12.3 million for the year ended 31 December 2021, which was mainly attributable to (i) a decrease in government grants; (ii) an increase in bank interest income; and (iii) an increase in interest income from financial assets measured at fair value through profit or loss, because of the increase in average balance of the financial assets measured at fair value through profit or loss held by the Group.

## 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 decreased from approximately RMB967.2 million for the year ended 31 December 2020 to approximately RMB954.4 million for the year ended 31 December 2021, which was mainly attributable to (i) a decrease in labour service expenses of salesmen of offline channels due to the decrease in the number of concessionary counters and salesman staff; (ii) less promotion activities carried out by supermarkets during the year, resulting in the decrease in distribution costs associated with supermarkets during the year; (iii) a decrease in salary and employee benefits expenses due to the decrease in the number of management staff as a result of optimization of employee structure; (iv) a decrease in transportation expenses due to the change of logistic service provider; (v) a decrease in the depreciation expenses during the year, as the Group adjusted the number of concessionary counters, and it resulted in the decrease of the total number of concessionary counters and the carrying amount of the fixed asset attributable to concessionary counters; (vi) an increase in revenue resulted in the increase in the commission expense; (vii) an increase in the advertisement promotion expenses was mainly due to more sales and marketing promotion activities were conducted during the year; and (viii) a decrease in the promotion expenses, because of the Group implemented the stringent control over the promotion gift expenses related to offline concessionary counter.

# Management Discussion and Analysis

## Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit, other taxes and fees, intermediary service expenses, depreciation and amortisation expense, research and development expenses. The administrative expenses increased from approximately RMB81 million for the year ended 31 December 2020 to approximately RMB81.6 million for the year ended 31 December 2021. The increase was mainly due to (i) an increase in the salary and employee benefit expenses, it was mainly attributed to the adjustment in the group organization structure (the "Adjustment"), it resulted in the change of the accounting classification of certain department staff's salary, certain department staff's salary was recorded in the salary and employee benefit expenses under the selling and distribution expenses before the Adjustment and recorded in the salary and the employee benefit expenses under the administrative expenses after the Adjustment; (ii) an increase in other taxes and fees due to the increase in value-added tax as a result of the increased revenue; (iii) share based payment decreased because employee stock options have reached the vesting period during the year ended 31 December 2021; (iv) intermediary service expenses decreased due to the enhanced cost control measures and (v) research and development expenses increased because of increase in the number of research and development department staff.

## Reversal of impairment/(Impairment Losses) on Financial Assets, Net

The Group recorded a reversal of impairment of on financial assets of approximately RMB3.5 million for the year ended 31 December 2021, while the Group recorded an impairment losses on financial asset of approximately RMB9.6 million for the year ended 31 December 2020, which was mainly attributable to a decrease in overdue trade and bills receivables balances.

## Other Expenses

Other expenses of the Group decreased to approximately RMB3.7 million for the year ended 31 December 2021 from approximately RMB10.7 million for the year ended 31 December 2020 primarily due to a decrease in the loss on disposal of property, plant and equipment.

## Finance Costs

For the year ended 31 December 2021, the Group's finance costs decreased from approximately RMB1 million for the year ended 31 December 2020 to approximately RMB0.8 million primarily attributable to a decrease in the interest expense on lease liabilities.

## Profit/(Loss) before Tax

As a result of the foregoing, the Group recorded a loss before tax of approximately RMB53.1 million for the year ended 31 December 2020, while a profit before tax of approximately RMB113.7 million for the year ended 31 December 2021.

# Management Discussion and Analysis

## **Income Tax (Expense)/Credit**

The Group's income tax credit was RMB38.6 million for the year ended 31 December 2020, while the income tax expense was RMB27.2 million for the year ended 31 December 2021, which was mainly due to an increase in current income tax expense, which was attributed to the increase in assessable profit for the year. The Group's effective tax rate for the year was different from the PRC statutory income tax rate of 25%, the difference was mainly attributable to the China's enterprise income tax exemption for income from preliminarily-processed agricultural products, and such waiver is applicable to the Group's certain products.

## **Profit/(Loss) for the Year**

The Group recorded a loss of approximately RMB14.5 million for the year ended 31 December 2020, while a profit of approximately RMB86.5 million for the year ended 31 December 2021.

# Management Discussion and Analysis

## FINANCIAL RESOURCES REVIEW

### Working Capital and Financial Resources

	<b>As at 31 December 2021 (RMB million)</b>	As at 31 December 2020 (RMB million)
Trade and bills receivables	<b>176.6</b>	161.9
Trade payables	<b>59.7</b>	52.6
Inventories	<b>81.3</b>	92
Trade receivables turnover days <sup>(1)</sup>	<b>38</b>	49
Trade payables turnover days <sup>(2)</sup>	<b>43</b>	52
Inventory turnover days <sup>(3)</sup>	<b>67</b>	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 increase of trade and bills receivables was primarily attributable to the increase in revenue. The decrease in trade receivables turnover days is primarily attribute to the shorten credit period granted to its customers.

The increase of trade payables was primarily attributable to an increase in the purchase of raw materials and packaging materials used for production. The trade payables turnover days decreased due to the shorten of payment days granted by our raw materials suppliers.

The decrease of inventories was mainly attributable to the inventory control carried out by our warehouses. The decrease in inventory turnover days is mainly because the implementation of the rigid inventory control measures.



# Management Discussion and Analysis

## Liquidity and Financial Resources

As at 31 December 2021, the Group's cash and cash equivalents amounted to RMB646 million, representing an increase of approximately 14.5% from RMB564.2 million as at 31 December 2020.

The Group's primary uses of cash were payment for suppliers, daily operating expenses, construction of the new manufacturing facility in Nansha County, Guangzhou, purchase of financial assets (i.e. wealth management product) at fair value through profit or loss and the payment of dividend. The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 31 December 2021, the Group had no interest-bearing borrowings (31 December 2020: nil).

Net cash flows from operating activities were RMB130.8 million in 2021, as compared with net cash flows from operating activities of RMB86.9 million in 2020. Net cash used in investing activities were RMB2.1 million in 2021, as compared with net cash flows used in investing activities of RMB62.4 million in 2020. Net cash flows used in financing activities were RMB41.6 million in 2021, as compared with net cash used in financing activities of RMB7.7 million in 2020.

As at 31 December 2021, the Group had net current asset of RMB709.9 million, as compared with net current asset of RMB665.5 million as at 31 December 2020.

## Capital Commitments

As at 31 December 2021, the Group had contracted but not provided for capital commitments of approximately RMB10.8 million, which were primarily related to the purchase of property, plant and equipment to be used for the construction of new manufacturing facility in Nansha County Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB23.1 million as at 31 December 2020.

## 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.

# Management Discussion and Analysis

## Contingent Liabilities

As at 31 December 2021, the Group had no contingent liabilities.

## Pledge of Assets

As at 31 December 2021, the Group's restricted bank deposit of RMB0.9 million were pledged for the land of Nansha, Guangzhou and for a litigation with employee (31 December 2020: RMB0.6 million).

## Gearing Ratio

As at 31 December 2021, the Group's gearing ratio (calculated by dividing total debt (including lease liabilities) by total assets as of the end of each year) was approximately 1.2% (31 December 2020: 1.4%).

## Employees and Remuneration Policy

As at 31 December 2021, the Group had 713 employees, as compared with 739 employees as at 31 December 2020. For the year ended 31 December 2021, costs of employees, excluding Directors' emoluments, amounted to a total of RMB155.8 million, representing a decrease of approximately 7.5% from RMB168.5 million in 2020. 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 at 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 a share option scheme and a share award scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the schemes are set out in the "Directors' Report" section of the annual report of the Company for the year ended 31 December 2021.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

**Ms. GUI Changqing (桂常青)**, aged 49, 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 48, 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 Directors

**Ms. Tse Cheung On Anne (謝長安)**, aged 45, currently acts as CEO in the Greater China Region of PepsiCo., Inc. (the "PepsiCo"), a company listed on the NASDAQ (stock code: PEP) since November 2021. She joined PepsiCo 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, VP of e-Commerce in the Greater China and Asia, Middle East and North Africa, general manager of foods in the Greater China Region. She was an outside director of Calbee, Inc., a company listed on the Tokyo Stock Exchange (stock code: 2229), from June 2019 to July 2020. Prior to joining PepsiCo, she served as CEO of Mannings China from March 2008 to March 2010, and various positions including associate principal at McKinsey & Company, a strategic consulting firm, from 1998 to 2008. Ms. Tse 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 42, 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 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 was a non-executive director of Ozner Water International Holding Limited, a company listed on the Stock Exchange (stock code: 2014), from September 2017 to May 2020.

### Independent non-executive Directors

**Mr. Zhang Senquan (張森泉)**, formerly known as Zhang Min (張敏), aged 45, 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 obtained 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 Sang Hing Holdings (International) Ltd., a company listed on the Stock Exchange (stock code: 1472); and an independent non-executive director of Straw bear Entertainment Group, a company listed on the Stock Exchange (stock code: 2125); a company secretary of China General Education Group Limited, a company listed on the Stock Exchange (stock code: 2175).

Currently, Mr. Zhang is also the chief executive officer of Zhong Rui Capital (Hong Kong) Limited, a consultancy company and the Audit Principal of Nortex (HK) CPA Limited.

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; 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; an independent non-executive director of Bonny International Holding Limited, a company listed on the Stock Exchange (stock code: 1906), from March 2019 to June 2020; an independent non-executive director of Beijing Digital Telecom Co., Ltd., a company listed on the Stock Exchange (stock code: 6188), from June 2018 to June 2021; and an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd. (江蘇艾迪藥業股份有限公司), a company listed on Sci-tech innovation board of Shanghai Stock Exchange (stock code: 688488) from May 2019 to March 2022.

# Directors and Senior Management

**Mr. HU Peng (胡芑)**, aged 46, 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 2019, 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 in 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 period 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, Master in 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 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 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. XIONG Xinsheng (熊鑫升)**, aged 59, 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 remote 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 master’s studies in 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 40, was appointed as the company secretary of the Company 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 deeply 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 2021, the Company has complied with applicable code provisions as set out in the CG Code.

## 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 specific enquiries made by the Company on each of the Directors, all Directors have confirmed that they had complied with the Model Code during the Reporting 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 Directors and three Independent non-executive Directors (the "**INEDs**"), as follows:

#### Executive Directors

Ms. GUI Changqing (*Chairman*)

Mr. ZHANG Zejun (*Chief Executive Officer*)

#### Non-executive Directors

Ms. TSE Cheung On Anne

Mr. WANG Duo

#### 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 18 to 20 of this annual report.

None of the members of the Board is related to one another, 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 Reporting 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 annual confirmations 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 hold one meetings annually with the INEDs without the presence of the other Directors. For the year ended 31 December 2021, the Chairman held 1 meeting with the INEDs on 24 December 2021 without the presence of any other Director. Going forward, the Chairman will continue to ensure compliance with this code provision.

## DIRECTORS’ CONTINUING PROFESSIONAL DEVELOPMENT

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 and refresh their relevant knowledge and skills.

During the year ended 31 December 2021, 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.

# Corporate Governance Report

## MEETINGS OF THE BOARD AND DIRECTORS' ATTENDANCE RECORDS

During the year ended 31 December 2021, the Board held 6 meetings, at which the Board discussed and approved the proposals of Company's overall strategy, considered and approved the proposals of Company's 2020 annual report, 2020 annual results announcement, 2021 interim report, 2021 interim results announcement, and discussed the quarterly results of operations.

The table below sets out the details of Board meetings and general meeting attendance of each Director during the year ended 31 December 2021:

<b>Name of Directors</b>	<b>Attendance/Number of board meetings</b>	<b>Attendance/Number of general meeting</b>
<b>Executive Directors</b>		
Ms. GUI Changqing ( <i>Chairman</i> )	6/6	1/1
Mr. ZHANG Zejun	6/6	1/1
<b>Non-executive Directors</b>		
Ms. TSE Cheung On Anne	5/6	1/1
Mr. WANG Duo	6/6	1/1
<b>Independent non-executive Directors</b>		
Mr. ZHANG Senquan	6/6	1/1
Mr. HU Peng	6/6	1/1
Mr. OUYANG Liangyi	6/6	1/1

# Corporate Governance Report

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 section headed “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 2021, 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, all of which are 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 are not limited to:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, and dealing 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 and 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, and 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 build and maintain effective systems;
- considering major investigation findings on risk management and internal control matters and management's response to these findings as delegated by the Board or on its own initiative;

# Corporate Governance Report

- 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 reviewing and monitoring 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 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 overseen 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 2021, the Audit Committee held 2 meetings, at which the Audit Committee considered and approved the proposals of Company's 2020 annual report, 2020 annual results announcement, 2021 interim report, 2021 interim results announcement, annual audit plan for the year of 2021. 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 2021:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Mr. ZHANG Senquan ( <i>Chairman</i> )	2/2
Mr. HU Peng	2/2
Mr. OUYANG Liangyi	2/2

# Corporate Governance Report

## 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 are not limited to:

- making recommendations to the Board on the Company’s remuneration policy and structure for all Directors’ and senior management 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 or 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 or 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 2021, the Remuneration Committee held 1 meeting, 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.

# Corporate Governance Report

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2021:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Mr. HU Peng ( <i>Chairman</i> )	1/1
Mr. ZHANG Senquan	1/1
Mr. OUYANG Liangyi	1/1

## 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 are not limited to:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least once 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 the 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.

# Corporate Governance Report

- a. to review the structure, size and composition (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 once 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.



# Corporate Governance Report

- (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 2021, the Nomination Committee held 1 meeting, 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, etc.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2021:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Mr. OUYANG Liangyi ( <i>Chairman</i> )	1/1
Ms. GUI Changqing	1/1
Mr. HU Peng	1/1

## 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;

# Corporate Governance Report

- 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 2021 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. 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.

Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and shall be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting (the "AGM") and shall then be eligible for re-election.

All the Directors, including INEDs, are subject to retirement by rotation and will be eligible for re-election in accordance with the Articles of Association. At each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at the AGM at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and does not offer himself for re-election. Any further Directors so to retire shall be those who have been the longest in office since their last re-election or appointment and so that as between the persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

In accordance with article 16.19 of the Articles of Association, Ms. Tse Cheung On Anne and Mr. Wang Duo, our non-executive Directors and 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 three Directors, will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election at the Annual General Meeting.

# 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 2021 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 2021 by band is set out below:

<b>Remuneration band (in RMB)</b>	<b>Number of individual</b>
Nil to 1,000,000	1
1,000,001 to 1,500,000	1
1,500,001 to 2,000,000	–
2,000,001 to 2,500,000	–
2,500,001 to 3,000,000	–
3,000,001 to 3,500,000	–
3,500,001 to 4,000,000	–

## INDEPENDENT AUDITORS' REMUNERATION

For the year ended 31 December 2021, Ernst & Young was engaged as the Group's independent auditor. Apart from the provision of annual audit services, Ernst & Young provided the non-audit services in connection with the interim review.

The remuneration paid/payable to the independent auditors in respect of the year ended 31 December 2021 is set out below:

<b>Service Category</b>	<b>Fees Paid/Payable (RMB)</b>
Audit Services for 2021 annual audit	1,550,000
Non-audit Services (which include interim review service)	420,000
<b>Total</b>	<b>1,970,000</b>

# Corporate Governance Report

## 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 2021. 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 quarterly 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 2021.

## 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 the 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 eliminating 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;

# Corporate Governance Report

- 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
- reporting to the Audit Committee about the findings on identified risks and measures to address such risks.

Various 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 2021, 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 2021, 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 2021.

## 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 Suite 2703, 27th 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.

# Corporate Governance Report

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 Suite 2703, 27th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong) or by email to [ir@szwgmf.com](mailto: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.

# Corporate Governance Report

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.

## 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](http://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.

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021 and up to the date of this annual report, there is no any change in the Company's M&A. The Company's M&A 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 2021 of the Group.

## 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 2021 are set out in the section headed "Management Discussion and Analysis" on pages 6 to 17 of this annual report.

## RESULTS

The results of the Group for the year ended 31 December 2021 and the Group's financial position as at 31 December 2020 are set out in the Financial Statements on pages 64 to 67 of this annual report.

## FINAL DIVIDEND

At the Board meeting held on 28 March 2022, the Board was resolved not to pay final dividend for the year ended 31 December 2021.

## ANNUAL GENERAL MEETING

The 2021 AGM will be held on 31 May 2022. Notice of the 2021 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 2022 (Wednesday)
  - Closure of register of members 26 May 2022 (Thursday) to 31 May 2022 (Tuesday)

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 148 to 149 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 2021 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\$106.4 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 (HK\$ million)	Accumulated amount utilised as at 31 December 2020 (HK\$ million)	Amount utilised during the year of 2021 (HK\$ million)	Remaining balance as at 31 December 2021 (HK\$ million)	Expected timeline for utilised Net Proceeds
To further enhance our integrated distribution platform and optimize our channel mix	222.9	222.9	-	-	N/A
- To expand the online presence through further developing the technology infrastructure	22.3	22.3	-	-	N/A
- To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	22.3	-	-	N/A
- To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	44.6	-	-	N/A
- To expand into and introduce our existing and/or new products at various high-frequency "on-the-go" consumption channels	133.7	133.7	-	-	N/A
To construct the new Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	230.5	45.2	106.4	By the end of 2023
To use for general corporate purposes	31.8	31.8	-	-	N/A
<b>Total</b>	<b>636.8</b>	<b>485.2</b>	<b>45.2</b>	<b>106.4</b>	

As at 31 December 2021, 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 26 to the Financial Statements.

## RESERVES

Details of the changes in reserves of the Group during the Reporting Period are set out in note 28 to the Financial Statements.

As at 31 December 2021, the reserves of the Company available for distribution to Shareholders was approximately RMB604.3 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 28.2% (2020: 23.3%) of the Group's total purchases and the largest supplier accounted for 9.4% (2020: 8.3%) 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

As at 31 December 2021, the Group did not have any bank loans and other borrowings.

## CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any contingent liabilities.

# Report of the Board of Directors

## 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 Directors

Ms. TSE Cheung On Anne

Mr. WANG Duo

### 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 18 to 21 of this annual report.

## CHANGE IN INFORMATION OF DIRECTORS

Save as disclosed in this annual report, there are no changes in information of Directors required to be disclosed for the year ended 31 December 2021 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 in note 32 to the Financial Statement.

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 2021, 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:

<b>Name of Director</b>	<b>Nature of Interest</b>	<b>Number of Shares</b>	<b>Approximate percentage of Shareholding</b>
Mr. ZHANG Zejun (Note 2)	Founder of a discretionary trust	930,000,000 (L)	42.49%
Ms. GUI Changqing (Note 2)	Beneficiary of trust	930,000,000 (L)	42.49%

Long position in share options of the Company:

<b>Name of Director</b>	<b>Number of share options beneficially owned</b>
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 2021, 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.

# Report of the Board of Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2021, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate percentage of Shareholding
Trident Trust Company (HK) Limited (Note 2)	Trustee of a trust	930,000,000 (L)	42.49%
Paddy Aroma Investment Limited (Note 2)	Interest in a controlled corporation	930,000,000 (L)	42.49%
Natural Capital Holding Limited (Note 2)	Beneficial owner	930,000,000 (L)	42.49%
PepsiCo, Inc.	Beneficial owner	566,506,000 (L)	25.88%
Mr. YANG Zhuoya (Note 3)	Interest in controlled corporation; beneficial owner	183,784,000 (L)	8.39%
Natural Investment Holding Limited (Note 3)	Beneficial owner	27,794,000 (L)	1.27%
Beadvance Investments Limited (Note 3)	Beneficial owner	150,000,000 (L)	6.85%

*Notes:*

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



# Report of the Board of Directors

Save as disclosed above, as at 31 December 2021, 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 and Share Award 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 2021.

## 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.

# Report of the Board of Directors

## (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.

# Report of the Board of Directors

## **(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.

# Report of the Board of Directors

The Company granted 74,018,823 share options on 12 June 2019 at an exercise price of HK\$1.468 per share and exercisable 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\$1.45. 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:

<b>Name of grantee</b>	<b>Position in the Company</b>	<b>Number of Share Options</b>
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. 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:

<b>Vesting date</b>	<b>Percentage of Share Options to vest</b>
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:

<b>Vesting date</b>	<b>Percentage of Share Options to vest</b>
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:

<b>Vesting date</b>	<b>Percentage of Share Options to vest</b>
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

# Report of the Board of Directors

(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

For the year ended 31 December 2021, 182,717 Share Options had cancelled and no share options had been exercised. As at 31 December 2021, 63,692,502 Share Options were outstanding.

Details of the options granted under the Share Option Scheme and those remained outstanding as at 31 December 2021 are as follows:

Name and class of grantees	Date of grant	Number of share options				Balance as at 31 December 2021	Exercise price per share (HK\$)	Exercisable period
		Balance as at 1 January 2021	Granted during the year ended 31 December 2021	Exercised during the year ended 31 December 2021	Cancelled/ Lapsed during the year ended 31 December 2021			
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
		<b>10,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,000,000</b>		
Continuous contract employees								
	12 June 2019	4,000,000	-	-	-	4,000,000	1.468	Note a
	12 June 2019	17,425,219	-	-	182,717	17,242,502	1.468	Note b
	12 June 2019	19,000,000	-	-	-	19,000,000	1.468	Note c
	12 June 2019	12,450,000	-	-	-	12,450,000	1.468	Note d
		<b>52,875,219</b>	<b>-</b>	<b>-</b>	<b>182,717</b>	<b>52,692,502</b>		
Those who have or may have contributed to the Group								
	12 June 2019	1,000,000	-	-	-	1,000,000	1.468	Note a
		<b>1,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,000,000</b>		
		<b>63,875,219</b>	<b>-</b>	<b>-</b>	<b>182,717</b>	<b>63,692,502</b>		

# Report of the Board of Directors

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

## SHARE AWARD SCHEME

The Board has resolved to adopt the Share Award Scheme on 28 March 2022.

### 1. Objective

The objectives of the Share Award Scheme are: (i) to recognize the contributions of certain employees of the Group provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

### 2. Administration

The Share Award Scheme is subject to the administration of the Board in accordance with the rule of the Share Award Scheme (the “**Scheme Rules**”).

### 3. Scheme Limit

The Board shall not make any further award of restricted share units (“**RSU(s)**”) which will result in the aggregate number of the Awarded Shares (as defined below) underlying the RSUs awarded by the Board under the Share Award Scheme exceeding ten per cent. of the issued share capital of the Company from time to time throughout the trust period, which is term of ten years commencing on 28 March 2022. Awards lapsed in accordance with the terms of the Share Award Scheme shall not be counted for the purpose of calculating the ten per cent. limit. The maximum number of Awarded Shares underlying the Share Award Scheme which may be awarded to a selected participant under the Share Award Scheme shall not exceed one per cent. of the issued share capital of the Company in any 12-month period.

### 4. Voting Rights

The trustee (who is an independent third party) appointed by the Board to manage the Share Award Scheme (“**Trustee**”), the Board and the authorised representatives appointed by the Board by passing ordinary resolutions delegated with authority to give instructions or notices to the Trustee on all matters in connection with the Share Award Scheme and other matters in the routine administration of the Trust (if any) shall not exercise any voting rights attached to any Shares held on the trust constituted by the trust deed (the “**Trust**”).

# Report of the Board of Directors

## 5. Restrictions

The Awarded Shares awarded to the employee(s) selected by the Board pursuant to the Scheme Rules to participate in the Share Award Scheme (the “**Selected Employee(s)**”) under the Share Award Scheme shall be personal to such employee and shall not be transferable. Each of the Selected Employees shall not sell, transfer, pledge or create any encumbrance by any means in respect of the unvested Awarded shares. The Selected Employee(s) are not entitled to any rights attached to the unvested such number of Shares awarded by the Board pursuant to the Scheme Rules (the “**Awarded Shares**”), including but not limited to any voting right and entitlement to dividends that have accrued prior to the vesting of such Awarded Shares. If any Director or authorised representatives appointed by the Board by passing ordinary resolutions delegated with authority to give instructions or notices to the Trustee on all matters in connection with the Share Award Scheme and other matters in the routine administration of the Trust possesses unpublished inside information in relation to the Company, or where dealings by Directors are prohibited under any code or requirement of the Listing Rules or any applicable laws from time to time, no payment shall be made to the Trustee and no instructions to acquire Shares shall be given to the Trustee under the Share Award Scheme. Further, the Board shall not award any Awarded Shares during the periods in which dealing in Shares is prohibited pursuant to the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

## 6. Operation

Pursuant to the Share Award Scheme, the Board may from time to time instruct the Trustee to purchase the existing Shares in the open market, and determine, among other things, the timing of awards, list of selected employees, number of Awarded Shares, vesting dates and conditions of vesting mainly based on the overall results and performance of the Group and contributions made by the employees. Unless otherwise determined by the Board at its discretion, the Trustee shall hold Awarded Shares until such Shares are vested in the selected employees in accordance with the Scheme Rules.

## 7. Vesting and Lapse

Unless otherwise determined by the Board at its discretion, the relevant Awarded Shares held by the Trustee on behalf of the selected employees on Trust shall not vest in the relevant selected employee in the following circumstances: (i) the selected employee ceases to be a selected employee for whatever reason; or (ii) other circumstances as provided in the Scheme Rules. Upon occurrence of any of the above circumstances, any Awarded Shares awarded but have not been vested in the selected employee will be returned to the Trust in accordance with the Scheme Rules. In respect of a selected employee who retires at his normal retirement date at any time prior to a Vesting Date, all the Awarded Shares of such selected employee shall be deemed to be vested on the day immediately prior to his retirement at his normal retirement date.

As at the date of the annual report, no Awarded Shares has been granted, vested or lapsed under the Share Award Scheme.

# Report of the Board of Directors

## 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	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	100

## 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 2021 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 2021.

## PURCHASE, SALE AND REDEMPTION OF SHARES

During the Reporting Period, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries.

## CHARITABLE DONATIONS

During the Reporting Period, the charitable contributions and other donations amounted to RMB240,000.



# Report of the Board of Directors

## 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 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.

## 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.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2021, 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 Reporting Period.

# Report of the Board of Directors

## 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.

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 2021 until the end of 2021.

## 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.

# Report of the Board of Directors

## EVENTS AFTER THE REPORTING PERIOD

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 2021.

## 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 2021 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 2021 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*

28 March 2022

# 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 147, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 (“HKASs”) 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 risk inherent in the 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 2021, the Group's consolidated revenue amounted to RMB1,610,322,000. Revenue was significant in our audit of the consolidated financial statements for the current year.

Please refer to note 2.4 to the consolidated financial statements for the summary of accounting policies relating to revenue recognition, and note 5 to the consolidated financial statements for the related disclosures 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 channels and by months 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 trade receivables confirmations, on a sample basis, from major retail outlet channels of the Group. For uncollected 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 HKSAAs 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 HKSAAs, 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.

# Independent auditor's report

- 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 Audit Committee 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, actions taken to eliminate threats or safeguards applied.

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 Tjen, Michael.

## **Ernst & Young**

*Certified Public Accountants*

Hong Kong

28 March 2022



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	<b>1,610,322</b>	1,438,547
Cost of sales		<b>(471,876)</b>	(431,996)
Gross profit		<b>1,138,446</b>	1,006,551
Other income and gains	5	<b>12,266</b>	9,918
Selling and distribution expenses		<b>(954,443)</b>	(967,229)
Administrative expenses		<b>(81,561)</b>	(81,020)
Reversal of impairment/(impairment losses) on financial assets, net	6	<b>3,497</b>	(9,595)
Other expenses		<b>(3,702)</b>	(10,713)
Finance costs	7	<b>(821)</b>	(972)
PROFIT/(LOSS) BEFORE TAX	6	<b>113,682</b>	(53,060)
Income tax (expense)/credit	10	<b>(27,151)</b>	38,608
PROFIT/(LOSS) FOR THE YEAR		<b>86,531</b>	(14,452)
Attributable to:			
Owners of the parent	12	<b>86,531</b>	(14,452)
Non-controlling interests		<b>-</b>	-
		<b>86,531</b>	(14,452)

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2021 RMB'000	2020 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		13,790	29,307
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		(19,141)	(39,912)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>81,180</b>	<b>(25,057)</b>
Attributable to:			
Owners of the parent		81,180	(25,057)
Non-controlling interests		-	-
		<b>81,180</b>	<b>(25,057)</b>
Earnings/(Loss) per share (expressed in RMB)			
Basic	12	0.04	(0.01)
Diluted	12	0.04	(0.01)

# Consolidated Statement of Financial Position

	Notes	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	<b>313,704</b>	306,099
Right-of-use assets	15(a)	<b>51,206</b>	54,469
Intangible assets	14	<b>338</b>	598
Deferred tax assets	16	<b>67,300</b>	65,642
<b>Total non-current assets</b>		<b>432,548</b>	426,808
<b>CURRENT ASSETS</b>			
Inventories	17	<b>81,349</b>	92,022
Trade and bills receivables	18	<b>176,591</b>	161,934
Financial assets at fair value through profit or loss	19	<b>–</b>	20,750
Prepayments, other receivables and other assets	20	<b>49,511</b>	41,422
Amounts due from related parties	32	<b>11,141</b>	10,448
Cash and cash equivalents	21	<b>646,015</b>	564,175
Restricted bank deposits	21	<b>888</b>	557
<b>Total current assets</b>		<b>965,495</b>	891,308
<b>CURRENT LIABILITIES</b>			
Trade payables	22	<b>59,732</b>	52,618
Contract liabilities	23	<b>15,874</b>	12,330
Other payables and accruals	24	<b>127,735</b>	124,212
Lease liabilities	15(b)	<b>6,200</b>	5,389
Amounts due to related parties	32	<b>261</b>	–
Tax payable		<b>45,772</b>	31,251
<b>Total current liabilities</b>		<b>255,574</b>	225,800
<b>NET CURRENT ASSETS</b>		<b>709,921</b>	665,508
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,142,469</b>	1,092,316

# Consolidated Statement of Financial Position

	Notes	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	25	156	500
Deferred tax liabilities	16	7,524	3,324
Lease liabilities	15(b)	10,550	13,004
<b>Total non-current liabilities</b>		<b>18,230</b>	16,828
<b>Net assets</b>		<b>1,124,239</b>	1,075,488
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital	26	147	147
Other reserves	28	1,124,092	1,075,341
<b>Non-controlling interests</b>		<b>-</b>	-
<b>Total equity</b>		<b>1,124,239</b>	1,075,488

**Gui Changqing**

*Director*

**Zhang Zejun**

*Director*

# Consolidated Statement of Changes in Equity

## Attributable to owners of the parent

	Share capital	Treasury shares	Share premium	Share option reserve	Merger reserve	Exchange fluctuation reserve	Statutory surplus reserve	Retained profits/ losses (accumulated)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26)	(Note 26)	(Note 28(a))		(Note 28(b))	(Note 28(c))	(Note 28(d))		
At 1 January 2021	147	-	1,137,738	25,493	(87,350)	(24,460)	32,832	(8,912)	1,075,488
Profit for the year	-	-	-	-	-	-	-	86,531	86,531
Exchange differences on translation of foreign operations	-	-	-	-	-	13,790	-	-	13,790
Translation from functional currency to presentation currency	-	-	-	-	-	(19,141)	-	-	(19,141)
Total comprehensive loss for the year	-	-	-	-	-	(5,351)	-	86,531	81,180
Equity-settled share option arrangements	-	-	-	2,587	-	-	-	-	2,587
Interim 2021 dividend	-	-	(35,016)	-	-	-	-	-	(35,016)
Transfer to statutory reserve funds	-	-	-	-	-	-	259	(259)	-
At 31 December 2021	147	-	1,102,722*	28,080*	(87,350)*	(29,811)*	33,091*	77,360*	1,124,239
At 1 January 2020	147	(6,359)	1,144,097	14,789	(87,350)	(13,855)	32,496	5,876	1,089,841
Loss for the year	-	-	-	-	-	-	-	(14,452)	(14,452)
Exchange differences on translation of foreign operations	-	-	-	-	-	29,307	-	-	29,307
Translation from functional currency to presentation currency	-	-	-	-	-	(39,912)	-	-	(39,912)
Total comprehensive loss for the year	-	-	-	-	-	(10,605)	-	(14,452)	(25,057)
Shares repurchased and cancelled	-	6,359	(6,359)	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	10,704	-	-	-	-	10,704
Transfer to statutory reserve funds	-	-	-	-	-	-	336	(336)	-
At 31 December 2020	147	-	1,137,738	25,493	(87,350)	(24,460)	32,832	(8,912)	1,075,488

\* These reserve accounts comprise the consolidated reserves of RMB1,124,092,000 (2020: RMB1,075,341,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

	Notes	2021 RMB'000	2020 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>113,682</b>	(53,060)
Adjustments for:			
Bank interest income	5	<b>(4,213)</b>	(1,237)
Income from financial assets measured at fair value through profit or loss	5	<b>(3,485)</b>	(2,648)
Finance costs	7	<b>821</b>	972
Depreciation of property, plant and equipment	6	<b>23,474</b>	30,205
Depreciation of right-of-use assets	6	<b>7,338</b>	7,501
Amortisation of intangible assets	6	<b>260</b>	447
(Reversal of impairment)/impairment of trade receivables and other receivables, net	6	<b>(3,497)</b>	9,595
Loss on disposal of items of property, plant and equipment	6	<b>3,058</b>	5,580
Equity-settled share option expenses	27	<b>2,587</b>	10,704
		<b>140,025</b>	8,059
Decrease in inventories		<b>10,673</b>	21,935
(Increase)/decrease in trade and bills receivables		<b>(11,160)</b>	57,282
(Increase)/decrease in prepayments, other receivables and other assets		<b>(8,079)</b>	22,467
Decrease in an amount due from a director		<b>-</b>	6
(Increase)/decrease in amounts due from related parties		<b>(693)</b>	354
Increase in restricted bank deposits		<b>(331)</b>	(2)
Increase/(decrease) in trade payables		<b>7,114</b>	(10,646)
Decrease in other payables and accruals		<b>(701)</b>	(6,998)
Increase in amounts due to related parties		<b>261</b>	-
Increase in contract liabilities		<b>3,543</b>	1,568
(Decrease)/increase in deferred income		<b>(342)</b>	412
Cash generated from operations		<b>140,310</b>	94,437
Interest received		<b>593</b>	1,237
Income tax paid		<b>(10,087)</b>	(8,740)
Net cash flows from operating activities		<b>130,816</b>	86,934

# Consolidated Statement of Cash Flows

	Note	2021 RMB'000	2020 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of financial assets measured at fair value through profit or loss		<b>(251,300)</b>	(171,300)
Proceeds from redemption of financial assets measured at fair value through profit or loss		<b>279,155</b>	153,198
Purchase of items of property, plant and equipment		<b>(31,171)</b>	(44,423)
Proceeds from disposal of items of property, plant and equipment		<b>1,247</b>	29
Net cash flows used in investing activities		<b>(2,069)</b>	(62,496)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		<b>(821)</b>	(972)
Principal portion of lease payments		<b>(5,727)</b>	(6,763)
Dividend paid		<b>(35,016)</b>	-
Net cash flows used in financing activities		<b>(41,564)</b>	(7,735)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>564,175</b>	558,048
Effect of foreign exchange rate changes, net		<b>(5,343)</b>	(10,576)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>646,015</b>	564,175
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	21	<b>646,015</b>	564,175

# Notes to Financial Statements

## 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, Uglan 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



# Notes to Financial Statements

## 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.

## 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.

# Notes to Financial Statements

## 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 2021. 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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> (early adopted)

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

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendments did not have any impact on the financial position and performance of the Group.

# Notes to Financial Statements

## 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	<i>Reference to the Conceptual Framework</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>2, 5</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-Current</i> <sup>2, 4</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> <sup>2</sup>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> <sup>2</sup>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>2</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>1</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>1</sup>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>5</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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.

# Notes to Financial Statements

## 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.

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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

# Notes to Financial Statements

## 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.

# Notes to Financial Statements

## 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	The 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.



# Notes to Financial Statements

## 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**

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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (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:

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 lease. 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (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 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.

### 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### **Initial recognition and measurement** (Continued)

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.

#### **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.

# Notes to Financial Statements

## 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.

# Notes to Financial Statements

## 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.

# Notes to Financial Statements

## 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.

# Notes to Financial Statements

## 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.



# Notes to Financial Statements

## 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.

# Notes to Financial Statements

## 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, and 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.

# Notes to Financial Statements

## 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, for 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

#### **Revenue from contracts with customers**

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

#### *(a) Sale of products*

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 contracts 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 of 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

#### **Other 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 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.

#### **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 transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments (Continued)

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.

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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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).



# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

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:

# Notes to Financial Statements

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Judgements (Continued)

#### ***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.

#### **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 product) 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.

# Notes to Financial Statements

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### **Estimation uncertainty** (Continued)

#### ***Provision for expected credit losses on trade receivables*** (Continued)

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 2021 amounted to RMB4,773,000, details of which are set out in note 18 to the financial statements.

#### ***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.

# Notes to Financial Statements

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### ***Deferred tax assets***

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2021 was RMB39,529,000 (2020: RMB48,268,000). The amount of unrecognised tax losses at 31 December 2021 was RMB14,226,000 (2020: RMB424,000). Further details are contained in note 16 to the financial statements.

#### ***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 estimation is made with reference to the Group's business plan and future cash requirements outside the PRC.

## 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 further geographical information is presented.

### Information about major customers

The Group's customers primarily consist of individual customers. During the years ended 31 December 2020 and 2021, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

# Notes to Financial Statements

## 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 2020 and 2021.

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

	2021 RMB'000	2020 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods	<b>1,610,322</b>	1,438,547

	2021 RMB'000	2020 RMB'000
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<b>1,610,322</b>	1,438,547

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

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	<b>12,330</b>	10,762

# Notes to Financial Statements

## 5. REVENUE AND OTHER INCOME AND GAINS (Continued)

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
<i>Other income and gains</i>		
Government grants*	<b>2,000</b>	3,309
Bank interest income	<b>4,213</b>	1,237
Income from financial assets at fair value through profit or loss	<b>3,485</b>	2,648
Commission income from provision of a sales platform	<b>1,779</b>	1,640
Others	<b>789</b>	1,084
	<b>12,266</b>	9,918

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

# Notes to Financial Statements

## 6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		<b>471,876</b>	431,996
Depreciation of property, plant and equipment	13	<b>23,474</b>	30,205
Depreciation of right-of-use assets	15(a)	<b>7,338</b>	7,501
Lease payments not included in the measurement of lease liabilities	15(c)	<b>4,050</b>	3,096
Research and development costs*		<b>8,864</b>	3,872
Amortisation of intangible assets	14	<b>260</b>	447
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8) and research and development costs):			
Wages and salaries		<b>134,560</b>	149,981
Equity-settled share option expenses		<b>1,587</b>	8,554
Pension scheme contributions		<b>11,836</b>	9,926
Auditor's remuneration		<b>1,858</b>	1,840
(Reversal of impairment)/impairment losses on financial assets, net	18, 20	<b>(3,497)</b>	9,595
Loss on disposal of items of property, plant and equipment**		<b>3,058</b>	5,580
Finance costs	7	<b>821</b>	972
Bank interest income	5	<b>(4,213)</b>	(1,237)

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

\*\* Loss on disposal of items of property, plant and equipment is included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

As at the end of each financial year, the Group had no forfeited contributions available to reduce its contributions to the retirement schemes in future years.

# Notes to Financial Statements

## 7. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	821	972

## 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:

	2021 RMB'000	2020 RMB'000
Fees	1,281	720
Other emoluments		
– Salaries, allowances and benefits in kind	2,728	2,472
– Equity-settled share option expense	1,000	2,150
– Pension scheme contributions	72	52
	<b>3,800</b>	4,674
	<b>5,081</b>	5,394

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 27 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.



# Notes to Financial Statements

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

### (a) Independent non-executive directors

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

2021	Equity-settled share option		Total
	Fees RMB'000	expense RMB'000	
Mr. Zhang Senquan	427	200	627
Mr. Hu Peng	427	200	627
Mr. Ouyang Liangyi	427	200	627
	<b>1,281</b>	<b>600</b>	<b>1,881</b>

2020	Equity-settled share option		Total
	Fees RMB'000	expense RMB'000	
Mr. Zhang Senquan	240	430	670
Mr. Hu Peng	240	430	670
Mr. Ouyang Liangyi	240	430	670
	<b>720</b>	<b>1,290</b>	<b>2,010</b>

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

# Notes to Financial Statements

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

### (b) Executive directors and non-executive directors

2021	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	1,004	200	36	1,240
Mr. Zhang Zejun	1,004	200	36	1,240
	<b>2,008</b>	<b>400</b>	<b>72</b>	<b>2,480</b>
Non-executive directors:				
Mr. Wang Duo	360	-	-	360
Ms. Tse Cheung On Anne	360	-	-	360
	<b>720</b>	<b>-</b>	<b>-</b>	<b>720</b>
	<b>2,728</b>	<b>400</b>	<b>72</b>	<b>3,200</b>

# Notes to Financial Statements

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

### (b) Executive directors and non-executive directors (Continued)

2020	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	996	430	26	1,452
Mr. Zhang Zejun	996	430	26	1,452
	1,992	860	52	2,904
Non-executive directors:				
Mr. Wang Duo	240	–	–	240
Ms. Tse Cheung On Anne	240	–	–	240
	480	–	–	480
	2,472	860	52	3,384

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

# Notes to Financial Statements

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director (2020: None). Details of the remuneration of the five (2020: five) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2021 RMB'000	2020 RMB'000
Other emoluments		
– Salaries, allowances and benefits in kind	8,011	8,227
– Equity-settled share option expense	141	1,832
– Pension scheme contributions	173	126
	<b>8,325</b>	10,185

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

	Number of employees	
	2021	2020
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	3	3
HK\$2,000,001 to HK\$3,000,000	2	1
HK\$3,000,001 to HK\$4,500,000	–	1
	<b>5</b>	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.

# Notes to Financial Statements

## 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 2020 and 2021.

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 2020 and 2021.

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 2020 and 2021 was 25% on the taxable profits.

During the years ended 31 December 2020 and 2021, income arising from the preliminary agricultural processed products in Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd. was not subject to income tax, pursuant to the relevant PRC tax laws.

The income tax expenses of the Group for the years ended 31 December 2020 and 2021 are analysed as follows:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Current – PRC		
Charge for the year	<b>22,016</b>	7,076
Underprovision in prior years	<b>2,593</b>	–
Deferred (note 16)	<b>2,542</b>	(45,684)
Total tax charge/(credit) for the year	<b>27,151</b>	(38,608)

# Notes to Financial Statements

## 10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to (loss)/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:

	2021		2020	
	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<b>113,682</b>		(53,060)	
Tax at the applicable statutory rate in each jurisdiction	<b>36,300</b>	<b>31.9</b>	(8,273)	15.6
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	<b>6,508</b>	<b>5.7</b>	–	–
Adjustments in respect of current tax of previous periods	<b>2,593</b>	<b>2.2</b>	–	–
Income not subject to tax *	<b>(26,890)</b>	<b>(23.7)</b>	(31,541)	59.4
Expenses not deductible for tax	<b>5,182</b>	<b>4.6</b>	1,206	(2.3)
Tax losses not recognised	<b>3,458</b>	<b>3.0</b>	–	–
Tax charge at the effective rate	<b>27,151</b>	<b>23.8</b>	(38,608)	72.7

\* 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 2020 and 2021, 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.

# Notes to Financial Statements

## 11. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Interim – RMB1.6 cent (2020:Nil) per ordinary share	<b>35,016</b>	–

The board of directors did not recommend proposing final dividend for the year ended 31 December 2021.

## 12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) 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/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. 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/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

Earnings/(loss)	2021 RMB'000	2020 RMB'000
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	<b>86,531</b>	(14,452)

# Notes to Financial Statements

## 12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT (Continued)

Shares	2021	2020
Weighted average number of ordinary shares in issue used in the basic earnings/(loss) per share calculation	<b>2,188,514,000</b>	2,188,514,000
Effect of dilution – weighted average number of ordinary shares: Share options	–	–
Weighted average number of ordinary shares in issue used in the diluted earnings/(loss) per share calculation	<b>2,188,514,000*</b>	2,188,514,000*

\* No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2020 and 2021 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.



# Notes to Financial Statements

## 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
<b>31 December 2021</b>							
At 1 January 2021:							
Cost	100,890	60,847	1,402	33,300	14,274	186,320	397,033
Accumulated depreciation	(36,994)	(35,898)	(932)	(10,887)	(6,223)	-	(90,934)
Net carrying amount	63,896	24,949	470	22,413	8,051	186,320	306,099
At 1 January 2021, net of accumulated depreciation and impairment	63,896	24,949	470	22,413	8,051	186,320	306,099
Additions	-	4,364	-	2,651	1,909	26,471	35,395
Disposals	-	(2,377)	-	(1,928)	-	-	(4,305)
Transfers	3,230	-	-	-	(3,230)	-	-
Depreciation provided during the year (note 6)	(6,238)	(7,204)	(140)	(6,699)	(3,193)	-	(23,474)
Exchange realignment	-	-	(10)	-	-	-	(10)
At 31 December 2021, net of accumulated depreciation	57,658	22,962	320	16,437	6,767	209,561	313,705
At 31 December 2021:							
Cost	100,890	60,841	1,382	30,460	16,183	209,561	419,317
Accumulated depreciation	(43,232)	(37,879)	(1,062)	(14,023)	(9,416)	-	(105,612)
Net carrying amount	57,658	22,962	320	16,437	6,767	209,561	313,705

# Notes to Financial Statements

## 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
<b>31 December 2020</b>							
At 1 January 2020:							
Cost	100,890	81,164	1,556	71,757	14,826	153,962	424,155
Accumulated depreciation	(30,617)	(46,888)	(902)	(41,079)	(4,897)	-	(124,383)
Net carrying amount	70,273	34,276	654	30,678	9,929	153,962	299,772
At 1 January 2020, net of accumulated depreciation and impairment							
	70,273	34,276	654	30,678	9,929	153,962	299,772
Additions	-	1,484	-	6,498	1,831	32,358	42,171
Disposals	-	(1,786)	(6)	(3,817)	-	-	(5,609)
Depreciation provided during the year (note 6)	(6,377)	(9,025)	(148)	(10,946)	(3,709)	-	(30,205)
Exchange realignment	-	-	(30)	-	-	-	(30)
At 31 December 2020, net of accumulated depreciation							
	63,896	24,949	470	22,413	8,051	186,320	306,099
At 31 December 2020:							
Cost	100,890	60,847	1,402	33,300	14,274	186,320	397,033
Accumulated depreciation	(36,994)	(35,898)	(932)	(10,887)	(6,223)	-	(90,934)
Net carrying amount	63,896	24,949	470	22,413	8,051	186,320	306,099

The buildings of the Group are situated in the PRC.

# Notes to Financial Statements

## 14. INTANGIBLE ASSETS

<b>Software</b>	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Cost at 1 January, net of accumulated amortisation	<b>598</b>	1,045
Addition	–	
Amortisation provided during the year (note 6)	<b>(260)</b>	(447)
Carrying amount at 31 December	<b>338</b>	598
At 31 December:		
Cost	<b>5,594</b>	5,991
Accumulated amortisation	<b>(5,256)</b>	(5,393)
Net carrying amount	<b>338</b>	598

## 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.

# Notes to Financial Statements

## 15. LEASES (Continued)

### The Group as a lessee (Continued)

#### (a) Right-of-use assets

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

	<b>Leasehold land</b> RMB'000	<b>Properties and plant</b> RMB'000	<b>Total</b> RMB'000
As at 1 January 2020	36,640	21,971	58,611
Additions	–	3,419	3,419
Depreciation charge	(861)	(6,640)	(7,501)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(60)	(60)
As at 31 December 2020 and 1 January 2021	35,779	18,690	54,469
Additions	–	4,248	4,248
Depreciation charge	(861)	(6,477)	(7,338)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(173)	(173)
As at 31 December 2021	34,918	16,288	51,206

# Notes to Financial Statements

## 15. LEASES (Continued)

### The Group as a lessee (Continued)

#### (b) Lease liabilities

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

<b>Lease liabilities</b>	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Carrying amount at 1 January	<b>18,393</b>	21,745
New leases	<b>4,248</b>	3,419
Accretion of interest recognised during the year	<b>821</b>	972
Payments	<b>(6,548)</b>	(7,735)
Revision of a lease term arising from a change in the non-cancellable period of a lease	<b>(164)</b>	(8)
<b>Carrying amount at 31 December</b>	<b>16,750</b>	18,393
Analysed into:		
Current portion	<b>6,200</b>	5,389
Non-current portion	<b>10,550</b>	13,004
<b>Carrying amount at 31 December</b>	<b>16,750</b>	18,393

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

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Interest on lease liabilities	<b>821</b>	972
Depreciation charge of right-of-use assets	<b>7,338</b>	7,501
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	<b>4,050</b>	3,096
<b>Total amount recognised in profit or loss</b>	<b>12,209</b>	11,569

#### (d) The total cash outflow for leases is disclosed in note 29(c) to the financial statements.

# Notes to Financial Statements

## 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	Provision for impairment of assets	Unrealised gains resulting from intra group transactions	Contract liabilities	Accruals	Advertising expenses	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	1,142	2,663	2,022	2,690	9,755	-	1,686	19,958
Deferred tax credited/(charged) to profit or loss during the year (note 10)	212	287	(332)	383	(1,448)	-	46,582	45,684
Gross deferred tax assets at 31 December 2020	1,354	2,950	1,690	3,073	8,307	-	48,268	65,642
At 1 January 2021	1,354	2,950	1,690	3,073	8,307	-	48,268	65,642
Deferred tax credited/(charged) to profit or loss during the year (note 10)	234	(953)	(596)	(445)	(620)	12,777	(8,739)	1,658
Gross deferred tax assets at 31 December 2021	1,588	1,997	1,094	2,628	7,687	12,777	39,529	67,300

# Notes to Financial Statements

## 16. DEFERRED TAX (Continued)

### Deferred tax liabilities

	Withholding tax on distributable profits of the Group's PRC subsidiaries RMB'000
At 1 January 2021	3,324
Deferred tax charged to profit or loss during the year (note 10)	4,200
Settlement during the year	–
<b>Gross deferred tax liabilities at 31 December 2021</b>	<b>7,524</b>
	Withholding tax on distributable profits of the Group's PRC subsidiaries RMB'000
At 1 January 2020	3,324
Deferred tax charged to profit or loss during the year (note 10)	–
Settlement during the year	–
<b>Gross deferred tax liabilities at 31 December 2020</b>	<b>3,324</b>

# Notes to Financial Statements

## 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 Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower 5% withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated since 1 January 2008. Deferred taxes of RMB4,200,000 have been recognised for withholding taxes that would be payable on the unremitted earnings for the year ended 31 December 2021 (2020: Nil).

The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB557,601,000 and RMB507,163,000 as at 31 December 2020 and 2021, 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 Mainland China of RMB13,836,000 and in Hong Kong of RMB390,000, respectively as at 31 December 2021 (2020: Hong Kong of RMB424,000). 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 it is not considered probable that enough taxable profits will be available against which the tax losses can be utilised.

## 17. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	21,727	35,965
Work in progress	3,420	1,823
Finished goods	46,393	46,389
Consumables	9,809	7,845
	<b>81,349</b>	92,022



# Notes to Financial Statements

## 18. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	174,008	165,840
Bills receivable	7,356	4,671
Impairment	(4,773)	(8,577)
	<b>176,591</b>	161,934

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:

	2021 RMB'000	2020 RMB'000
Within 1 month	165,817	149,620
1 to 2 months	4,433	2,053
2 to 3 months	895	800
Over 3 months	5,446	9,461
	<b>176,591</b>	161,934

# Notes to Financial Statements

## 18. TRADE AND BILLS RECEIVABLES (Continued)

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

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
At beginning of year	<b>8,577</b>	10,650
(Reversal of impairment)/impairment losses, net (note 6)	<b>(3,497)</b>	6,367
Amount written off as uncollectible	<b>(307)</b>	(8,440)
At end of year	<b>4,773</b>	8,577

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.

# Notes to Financial Statements

## 18. TRADE AND BILLS RECEIVABLES (Continued)

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

	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
<b>31 December 2021</b>						
Trade receivables (RMB'000)	155,322	10,586	2,863	218	5,018	174,007
Expected credit loss rate	0.1%	0.6%	2.8%	10.9%	88.8%	2.7%
Expected credit losses (RMB'000)	155	60	79	24	4,455	4,773
	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
<b>31 December 2020</b>						
Trade receivables (RMB'000)	137,284	12,648	1,655	924	13,329	165,840
Expected credit loss rate	0.1%	1.4%	6.2%	13.4%	60.3%	5.2%
Expected credit losses (RMB'000)	137	175	102	124	8,039	8,577

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Structured deposits, at fair value	–	20,750

As at 31 December 2020, the Group had structured deposits denominated in RMB which are open ended and charged at the rates ranging from 0.35% to 0.80% per annum.

# Notes to Financial Statements

## 20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments	16,946	14,188
Deposits	4,764	5,179
Value-added tax recoverable	15,800	11,436
Employee advances	7,252	6,362
Other receivables	7,977	7,485
Impairment allowance (note 6)	(3,228)	(3,228)
	<b>49,511</b>	41,422

The Group has applied the general approach to provide for expected credit losses for financial assets included in prepayments, other receivables and other assets if 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. Otherwise, they were measured based on lifetime expected credit losses. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate.

# Notes to Financial Statements

## 21. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	646,015	564,175
Restricted bank deposits	888	557
	<b>646,903</b>	564,732
Less: Restricted bank deposits	<b>(888)</b>	(557)
Cash and cash equivalents	<b>646,015</b>	564,175
Denominated in:		
– RMB	<b>514,758</b>	386,130
– HK\$	<b>132,145</b>	178,602
	<b>646,903</b>	564,732

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.

# Notes to Financial Statements

## 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:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Within 1 month	<b>40,834</b>	40,285
1 to 2 months	<b>13,601</b>	8,101
2 to 3 months	<b>1,939</b>	2,010
Over 3 months	<b>3,358</b>	2,222
	<b>59,732</b>	52,618

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

## 23. CONTRACT LIABILITIES

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Contract liabilities	<b>15,874</b>	12,330

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.

# Notes to Financial Statements

## 24. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Accruals	33,783	37,867
Payables for purchase of materials and equipment	6,100	1,876
Deposits	391	805
Salaries and welfare payables	54,933	57,269
Other tax payables	19,272	17,668
Other payables	13,256	8,727
	<b>127,735</b>	124,212

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

## 25. DEFERRED INCOME

Government grants	RMB'000
At 1 January 2020	88
Addition	500
Recognised during the year	(88)
At 31 December 2020 and 1 January 2021	500
Addition	–
Recognised during the year	(344)
At 31 December 2021	156

# Notes to Financial Statements

## 26. SHARE CAPITAL

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Issued and fully paid:		
2,188,514,000 (2020: 2,188,514,000) ordinary shares	<b>147</b>	147

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

	Notes	<b>Number of ordinary shares</b>	<b>Share capital</b> RMB'000
At 1 January 2020		2,193,014,000	147
Shares repurchased	26(a)	(4,500,000)	–
At 31 December 2020 and 1 January 2021		2,188,514,000	147
Shares repurchased		–	–
At 31 December 2021		2,188,514,000	147

*Note:*

- (a) 4,500,000 shares repurchased during the year ended 31 December 2019 were cancelled during the years ended 31 December 2020.

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.



# Notes to Financial Statements

## 27. 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.

# Notes to Financial Statements

## 27. 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 31 December 2021	Exercise period (both dates inclusive)	Exercise price per share
		At 1 January 2021	Granted during the year	Exercised during the year	Forfeited during the year			
i	12/06/2019	12,450,000	-	-	-	12,450,000	12/06/2020– 11/12/2028	HK\$1.468
ii	12/06/2019	19,000,000	-	-	-	19,000,000	12/12/2019– 11/12/2028	HK\$1.468
iii	12/06/2019	17,425,219	-	-	(182,717)	17,242,502	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
		63,875,219	-	-	(182,717)	63,692,502		

The Group recognised a share option expense of RMB2,587,000 during the year ended 31 December 2021.

# Notes to Financial Statements

## 27. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options 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:

<b>Principal valuation parameter</b>	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.

No share options are exercised during the year.

At 31 December 2021, the Company had 63,692,502 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 63,692,502 additional ordinary shares of the Company and additional share capital of RMB4,061 (before issue expenses).

At the date of approval of these financial statements, the Company had 63,692,502 share options outstanding under the Scheme, which represented approximately 2.9% of the Company's shares in issue as at that date.

# Notes to Financial Statements

## 28. 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 pages 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.

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year ended 31 December 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB4,248,000 and RMB4,248,000, respectively, in respect of lease arrangements for properties (2020: RMB3,419,000).

# Notes to Financial Statements

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Changes in liabilities arising from financing activities

2021

	Lease liabilities RMB'000
At 1 January 2021	18,393
New leases	4,248
Accretion of interest expenses	821
Interest paid	(821)
Principal elements of lease payments	(5,727)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(164)
At 31 December 2021	16,750

2020

	Lease liabilities RMB'000
At 1 January 2020	21,745
New leases	3,419
Accretion of interest expenses	972
Interest paid	(972)
Principal elements of lease payments	(6,763)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(8)
At 31 December 2020	18,393

# Notes to Financial Statements

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

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

	2021 RMB'000	2020 RMB'000
Within operating activities	4,050	3,096
Within financing activities	6,548	7,735
	<b>10,598</b>	10,831

## 30. PLEDGE OF ASSETS

Details of the Group's assets pledged for the land of Nansha, Guangzhou, and for a litigation with an employee are included in note 21 to the financial statements.

## 31. COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Capital commitments	10,756	23,129

As at 31 December 2020 and 2021, the amounts of the capital commitments were related to the purchase of property, plant and equipment.

# Notes to Financial Statements

## 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 related parties:**

	Notes	2021 RMB'000	2020 RMB'000
Shenzhen Jingya Natural Food Science and Technology Co., Ltd. ("Shenzhen Jingya")	(i)	676	590
Pepsico Foods (China) Co., Ltd.	(ii)	931	171
		<b>1,607</b>	761

Notes:

- (i) The sales prices offered to Shenzhen Jingya were based on a cost-plus approach with a mark-up margin. Shenzhen Jingya is controlled by Wei Qiuping, the sister-in-law of Mr. Zhang Zejun. Shenzhen Jingya purchased goods from the Group during the years of 2020 and 2021.
- (ii) The sales prices offered to Pepsico Foods (China) Co., Ltd. were made according to the published prices.

(b) **Outstanding balances with related parties**

(1) **Amounts due from related parties:**

	2021 RMB'000	2020 RMB'000
Shenzhen Jingya	11,004	10,261
Pepsico Foods (China) Co., Ltd.	137	187
	<b>11,141</b>	10,448

The balances of amounts due from related parties are unsecured, interest-free and repayable on demand. The balances as at 31 December 2020 and 2021 were trade in nature.

# Notes to Financial Statements

## 32. RELATED PARTY TRANSACTIONS (Continued)

### (b) Outstanding balances with related parties (Continued)

#### (2) Amounts due to related parties:

	2021 RMB'000	2020 RMB'000
Mr. Yang Zhuoya	1	–
Shenzhen Jingya	260	–
	<b>261</b>	–

Mr. Yang Zhuoya is a substantial shareholder of the Company. The balances of amounts due to related parties are unsecured, interest-free and repayable on demand.

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

	2021 RMB'000	2020 RMB'000
Short term employee benefits	4,009	3,192
Post-employment benefits	72	52
Equity-settled share option expense	1,000	2,150
	<b>5,081</b>	5,394

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 item (a)(i) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.



# Notes to Financial Statements

## 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:

**2021**

### *Financial assets*

	<b>Financial assets at amortised cost RMB'000</b>
Trade and bills receivables	176,591
Financial assets included in prepayments, other receivables and other assets	9,513
Amounts due from related parties	11,141
Cash and cash equivalents	646,015
Restricted bank deposits	888
	<b>844,148</b>

### *Financial liabilities*

	<b>Financial liabilities at amortised cost RMB'000</b>
Trade payables	59,732
Amounts due to related parties	261
Financial liabilities included in other payables and accruals	19,747
	<b>79,740</b>

# Notes to Financial Statements

## 33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2020

### *Financial assets*

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	–	161,934	161,934
Financial assets included in prepayments, other receivables and other assets	–	9,436	9,436
Amounts due from related parties	–	10,448	10,448
Financial assets at fair value through profit or loss	20,750	–	20,750
Cash and cash equivalents	–	564,175	564,175
Restricted bank deposits	–	557	557
	20,750	746,550	767,300

### *Financial liabilities*

	Financial liabilities at amortised cost RMB'000
Trade payables	52,618
Financial liabilities included in other payables and accruals	11,408
	64,026

# Notes to Financial Statements

## 34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2020 and 2021, 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 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.

# Notes to Financial Statements

## 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 2021			
Financial assets at fair value through profit or loss	–	–	–
As at 31 December 2020			
Financial assets at fair value through profit or loss	–	20,750	–

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.

# Notes to Financial Statements

## 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 HK\$ exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax and equity.

	Increase/ (decrease) in exchange rate (%)	Increase/ (decrease) in profit/(loss) before tax and equity RMB'000
2021		
If RMB weakens against HK\$	5	6,593
If RMB strengthens against HK\$	(5)	(6,593)
2020		
If RMB weakens against HK\$	5	8,896
If RMB strengthens against HK\$	(5)	(8,896)

### 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 related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

# Notes to Financial Statements

## 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 2021. The amounts presented are gross carrying amounts for financial assets.

#### As at 31 December 2021

	12-month	Lifetime ECLs				Total RMB'000
	ECLs	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade and bills receivables*		-	-	-	181,363	181,363
Financial assets included in prepayments, other receivables and other assets						
– Normal**		9,513	-	-	-	9,513
– Doubtful**		-	-	3,228	-	3,228
Amounts due from related parties						
– Normal**		11,141	-	-	-	11,141
Cash and cash equivalents						
– Not yet past due		646,015	-	-	-	646,015
Restricted bank deposits						
– Not yet past due		888	-	-	-	888
		667,557	-	3,228	181,363	852,148

# Notes to Financial Statements

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk (Continued)

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

As at 31 December 2020

	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*	–	–	–	170,511	170,511
Financial assets included in prepayments, other receivables and other assets					
– Normal**	9,436	–	–	–	9,436
– Doubtful**	–	–	3,228	–	3,228
Amounts due from related parties					
– Normal**	10,448	–	–	–	10,448
Cash and cash equivalents					
– Not yet past due	564,175	–	–	–	564,175
Restricted bank deposits					
– Not yet past due	557	–	–	–	557
	584,616	–	3,228	170,511	758,355

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

\*\* The credit quality of the financial assets included in prepayments, other receivables and other assets, and amounts due from related parties 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. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

# Notes to Financial Statements

## 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 region. 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 on 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:

	2021					Total RMB'000
	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	
Trade payables	40,834	15,540	3,358	–	–	59,732
Lease liabilities	–	1,944	4,891	11,121	–	17,956
Financial liabilities included in other payables and accruals	16,343	2,032	954	419	–	19,748
	57,177	19,516	9,203	11,540	–	97,436



# Notes to Financial Statements

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk (Continued)

	2020					Total RMB'000
	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	
Trade payables	40,285	10,111	2,222	–	–	52,618
Lease liabilities	–	1,791	4,516	13,803	–	20,110
Financial liabilities included in other payables and accruals	10,073	530	805	–	–	11,408
	50,358	12,432	7,543	13,803	–	84,136

### 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.

# Notes to Financial Statements

## 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 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:

	<b>31 December 2021 RMB'000</b>	31 December 2020 RMB'000
Lease liabilities	<b>16,750</b>	18,393
Total debts	<b>16,750</b>	18,393
Total assets	<b>1,398,043</b>	1,318,116
Gearing ratio	<b>1.2%</b>	1.4%

## 36. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant subsequent events after 31 December 2021 which are required to be disclosed as at the date of this report.

# Notes to 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:

	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	94,270	96,200
Total non-current assets	94,270	96,200
<b>CURRENT ASSETS</b>		
Amounts due from subsidiaries	469,116	442,098
Cash and cash equivalents	54,824	98,663
Total current assets	523,940	540,761
<b>CURRENT LIABILITIES</b>		
Amounts due to subsidiaries	10,829	9,209
Other payables	2,973	1,574
Total current liabilities	13,802	10,783
<b>NET CURRENT ASSETS</b>	<b>510,138</b>	529,978
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>604,408</b>	626,178
<b>NET ASSETS</b>	<b>604,408</b>	626,178
<b>EQUITY</b>		
Share capital	147	147
Reserves (note)	604,261	626,031
Total equity	604,408	626,178

# Notes to Financial Statements

## 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 2020	1,144,097	14,789	(2,978)	(480,418)	675,490
Loss for the year	-	-	-	(13,892)	(13,892)
Translation from functional currency to presentation currency	-	-	(39,912)	-	(39,912)
Total comprehensive income for the year	-	-	(39,912)	(13,892)	(53,804)
Shares cancelled	(6,359)	-	-	-	(6,359)
Equity-settled share option arrangements	-	10,704	-	-	10,704
At 31 December 2020 and 1 January 2021	1,137,738	25,493	(42,890)	(494,310)	626,031
Profit for the year	-	-	-	29,800	29,800
Translation from functional currency to presentation currency	-	-	(19,141)	-	(19,141)
Total comprehensive income for the year	-	-	(19,141)	29,800	10,659
Equity-settled share option arrangements	-	2,587	-	-	2,587
2021 interim dividend	(35,016)	-	-	-	(35,016)
At 31 December 2021	1,102,722	28,080	(62,031)	(464,510)	604,261

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022.

# Financial Summary

## CONSOLIDATED RESULTS

	Note	FY2021 RMB'000	FY2020 RMB'000	FY2019 RMB'000	FY2018 RMB'000	FY2017 RMB'000
Revenue		<b>1,610,322</b>	1,438,547	1,784,086	1,818,066	1,576,145
Cost of sales		<b>(471,876)</b>	(431,996)	(464,884)	(427,398)	(374,325)
<b>Gross profit</b>		<b>1,138,446</b>	1,006,551	1,319,202	1,390,668	1,201,820
Other income and gains		<b>12,266</b>	9,918	22,854	21,970	15,624
Selling and distribution expenses		<b>(954,443)</b>	(967,229)	(1,092,422)	(1,070,944)	(926,094)
Administrative expenses		<b>(81,561)</b>	(81,020)	(102,905)	(133,161)	(85,603)
Reversal of impairment/ (Impairment loss) on financial assets		<b>3,497</b>	(9,595)	(4,590)	(3,233)	(344)
Other expenses		<b>(3,702)</b>	(10,713)	(1,259)	(1,525)	(876)
Finance costs		<b>(821)</b>	(972)	(815)	(436)	(216)
Loss on fair value changes of convertible and redeemable preferred shares		<b>-</b>	-	-	(75,706)	(2,196)
Profit/(Loss) before tax		<b>113,682</b>	(53,060)	140,065	127,633	202,115
Income tax credit/(expenses)		<b>(27,151)</b>	38,608	(13,735)	(22,394)	(16,416)
<b>Profit/(Loss) for the year</b>		<b>86,531</b>	(14,452)	126,330	105,239	185,699
Attributable to:						
Owners of the parent		<b>86,531</b>	(14,452)	126,330	105,239	185,699
Adjusted net profit/(loss)	1	<b>86,531</b>	(14,452)	126,330	213,001	188,461

Note 1: Adjusted net profit/(loss) represents profit/(loss) for the year before loss on fair value changes of convertible and redeemable preferred shares and listing expenses. Adjusted net profit/(loss) 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/(loss) 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				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	<b>1,398,043</b>	1,318,116	1,355,402	1,401,276	868,281
Total liabilities	<b>273,804</b>	242,628	265,561	328,451	511,205
Total equity	<b>1,124,239</b>	1,075,488	1,089,841	1,072,825	357,076

# Definitions

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

“2021 AGM”	the annual general meeting of the Company to be held on 31 May 2022 for the year ended 31 December 2021
“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
“Awarded Share(s)”	the awarded shares under the Share Award Scheme
“Board of Directors” or “Board”	our board of Directors
“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
“Global Offering”	the Hong Kong public offering and the international offering of Shares as described in the Prospectus

# Definitions

“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 2021
“SFO”	Securities and Futures Ordinance (Chapter 571 of The Laws of Hong Kong)
“Share Option”	the share options granted under the Share Option Scheme



## Definitions

“Share Award Scheme”	the share award scheme that the Company adopted pursuant to a resolution passed by the Board on 28 March 2022
“Share Option Scheme”	the share option scheme that the Company conditionally adopted pursuant to a resolution passed by our Shareholders on 19 November 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