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BEST FOOD HOLDING COMPANY LIMITED

百福控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01488)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

	For the six months ended	
	30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	305,248	268,104
Adjusted profit/(loss) for the period (<i>Note</i>)	12,668	(67,724)
Adjusted items		
Interest on convertible bonds	(18,360)	(15,904)
Loss on fair value change on derivative financial instrument	—	(23,663)
Loss for the period	(5,692)	(107,291)
Loss per share attributable to equity holders of the Company:		
Loss per share (RMB cents) — basic and diluted	(0.54)	(6.39)

Note:

The adjusted profit/(loss) for the period is a non-GAAP financial measure and is calculated as the loss for the period excluding interest on convertible bonds and loss on fair value change on derivative financial instrument. The Group uses such unaudited adjusted loss as an additional financial measure to supplement the condensed consolidated interim financial information which is prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting and to evaluate the financial performance of the Group by excluding the impact of certain non-operating, unusual and/or non-recurring items which the Group does not consider to be indicative of the operating performance of the Group.

Such unaudited non-GAAP financial measure has limitation as an analytical tool, and should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). This non-GAAP financial measure may be defined differently from similar terms used by other companies. The Group's presentation of this non-GAAP financial measure should not be construed as an inference that the Group's future results will be unaffected by these items. Please see “Non-GAAP Financial Measure” for details.

REVIEW OF THE INTERIM RESULTS

PERFORMANCE REVIEW

Best Food Holding Company Limited (the “**Company**” or “**Best Food**”) and its subsidiaries (collectively the “**Group**”) are engaged in the operation of, and investment in, food and beverage business under more than 10 brands, including “Xinladao” fish hot pot, “HHG” Chinese fast food, Sichuan and Chongqing style fast food “Yujian Xiaomian”, “King of Clay Pot” claypot rice, “Seesaw coffee”, “West Master” Chinese bun, “Yuepin” Vietnamese cuisine, “Fook” malatang, “Dafulan” Hunan rice noodles and snacks, and “Panda Hot Pot” small hot pot.

For the first half of 2023, the Group’s total system sales, including sales of all restaurants, both owned and franchised under the brands of the Group and its associates, amounted to RMB1,770 million, representing an increase of 44% over the corresponding period of 2022. As at 30 June 2023, the number of stores under all the brands of the Group and its associates was 967, with a net increase in newly opened direct-sale stores and franchised stores of nearly 100 stores as compared with that as at 31 December 2022. For the first half of 2023, the revenue of the Group amounted to RMB305 million, representing an increase of 13.8% over the corresponding period of 2022.

Operational Empowerment

The Group continued to accelerate the expansion of scale of enterprises on Best Food’s platform through the development of cross-region and cross-brand franchisors. In the first half of 2023, the Group expanded its network of franchisors in new regions such as Shandong, Jiangsu, Zhejiang and Fujian Provinces, etc. It also increased the sales volume and improved the results performance through multiple modes, including direct sales, franchise, as well as partnerships with third parties.

Digital Empowerment

In the first half of 2023, the digital team of Best Food continued to make strenuous efforts in upgrading certain self-developed systems and applications with a focus on assisting the implementation of the Group’s principal businesses and realizing the synergy between customers, traffic flows and cooperative resources of various brands at group-level, thereby improving the operation efficiency of the Group.

Investment Empowerment

In the first half of 2023, Best Food focused on the provision of various value-added services for the brands operated by its associates with a view to increasing the values of each of the brands. During the first half of 2023, some of the brands operated by the Group’s associates achieved satisfactory operating results and made positive contribution to the Group’s financial performance.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased by 13.8% from RMB268.1 million for the six months ended 30 June 2022 to RMB305.2 million for the corresponding period of 2023, among which revenue from restaurant operations increased by 6.2% from RMB159.0 million for the six months ended 30 June 2022 to RMB168.8 million for the corresponding period of 2023, and revenue from delivery business increased by 17.3% from RMB89.1 million for the six months ended 30 June 2022 to RMB104.5 million for the corresponding period of 2023, which was mainly attributable to the increase in customer flow and the improved operating performance of restaurants as a result of the lifting of the COVID-19 pandemic control measures.

Raw material used and changes in inventories of finished goods

Raw material used and changes in inventories of finished goods increased by 2.5% from RMB110.6 million for the six months ended 30 June 2022 to RMB113.4 million for the corresponding period of 2023. Raw material used and changes in inventories of finished goods as a percentage of revenue decreased from 41.3% for the six months ended 30 June 2022 to 37.2% for the corresponding period of 2023, which was mainly attributable to the reduction of food waste as the restaurants are able to operate normally.

Online platform service charges and delivery fees

Online platform service charges and delivery fees increased by 2.9% from RMB17.5 million for the six months ended 30 June 2022 to RMB18.0 million for the corresponding period of 2023, which was mainly attributable to the increase in revenue from delivery business during the reporting period.

Employee benefit expense

Employee benefit expense increased by 1.2% from RMB85.6 million for the six months ended 30 June 2022 to RMB86.6 million for the corresponding period of 2023, which was mainly attributable to the increase in staff working hours resulting from the improvement of restaurant operations. Employee benefit expense as a percentage of revenue decreased from 31.9% for the six months ended 30 June 2022 to 28.4% for the corresponding period of 2023, which was mainly attributable to the increase in revenue during the reporting period.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 25.9% from RMB48.3 million for the six months ended 30 June 2022 to RMB35.8 million for the corresponding period of 2023. Depreciation of right-of-use assets as a percentage of revenue decreased from 18.0% for the six months ended 30 June 2022 to 11.7% for the corresponding period of 2023, which was mainly due to the increase in revenue during the reporting period, as well as the closure of certain underperforming restaurants with lower revenue contribution during the second half of 2022.

Depreciation and amortisation of other assets

Depreciation and amortisation of other assets decreased by 17.8% from RMB13.5 million for the six months ended 30 June 2022 to RMB11.1 million for the corresponding period of 2023. Depreciation and amortisation of other assets as a percentage of revenue decreased from 5.0% for the six months ended 30 June 2022 to 3.6% for the corresponding period of 2023, which was mainly due to the increase in revenue during the reporting period, as well as the closure of certain underperforming restaurants and disposal of underlying assets with lower revenue contribution during the second half of 2022.

Property rentals and other related expenses

Property rentals and other related expenses increased by 4.4% from RMB9.1 million for the six months ended 30 June 2022 to RMB9.5 million for the corresponding period of 2023. Property rentals and other related expenses as a percentage of revenue decreased from 3.4% for the six months ended 30 June 2022 to 3.1% for the corresponding period of 2023, which was mainly attributable to the increase in revenue during the reporting period.

Other expenses

Other expenses increased by 4.6% from RMB23.7 million for the six months ended 30 June 2022 to RMB24.8 million for the corresponding period of 2023, which was attributable to the increase in advertisement placement and business development expenses for business expansion during the reporting period. Other expenses as a percentage of revenue decreased from 8.8% for the six months ended 30 June 2022 to 8.1% for the corresponding period of 2023, which was mainly attributable to the increase in revenue during the reporting period.

Share of profits/(loss) of associates

Share of profits of associates amounted to RMB4.2 million for the six months ended 30 June 2023, while the share of loss of associates amounted to RMB14.1 million for the corresponding period of 2022, which was mainly attributable to the recovery of the operating results of associates during the reporting period.

Finance expenses — net

Finance expenses — net (which includes finance income, finance expenses and interest on convertible bonds) were RMB23.0 million and RMB23.1 million for the six months ended 30 June 2022 and 2023, respectively, which was mainly attributable to the increase in interest on convertible bonds and partially offset by the decrease in interest on lease liabilities as a result of the closure of some restaurants during the second half of 2022.

Income tax credit/(expenses)

Income tax credit amounted to RMB0.2 million for the six months ended 30 June 2022, while the income tax expenses amounted to RMB0.4 million for the corresponding period of 2023.

Loss for the period

The Group recorded loss for the period for the six months ended 30 June 2023 of approximately RMB5.7 million, as compared to loss of RMB107.3 million for the six months ended 30 June 2022, which was mainly attributable to the recovery of restaurant operations during the reporting period.

Non-GAAP Financial Measure

Adjusted profit/(loss) for the period

The adjusted profit/(loss) for the period is an additional financial measure, which is not required by, or presented in accordance with HKFRS. It is calculated as the loss for the period excluding interest on convertible bonds and loss on fair value change on derivative financial instrument. The table below sets forth the reconciliation of loss for the period to adjusted profit/(loss) for the period:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss for the period	(5,692)	(107,291)
Interest on convertible bonds	18,360	15,904
Loss on fair value change on derivative financial instrument	<u>—</u>	<u>23,663</u>
Adjusted profit/(loss) for the period	<u>12,668</u>	<u>(67,724)</u>

The Group uses adjusted profit/(loss) as an additional financial measure to supplement the condensed consolidated interim financial information which is prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting and to evaluate the financial performance of the Group by excluding the impact of certain non-operating, unusual and/or non-recurring items which the Group does not consider to be indicative of the operating performance of the Group.

Such unaudited non-GAAP financial measure has limitation as an analytical tool, and should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with HKFRS. This non-GAAP financial measure may be defined differently from similar terms used by other companies. The Group's presentation of this non-GAAP financial measure should not be construed as an inference that the Group's future results will be unaffected by these items.

Right-of-use assets

Under HKFRS 16 Leasing (“**HKFRS 16**”), the Group recognized right-of-use assets with respect to its property leases. The right-of-use assets are depreciated over the leasing term or the useful life of the underlying asset, whichever the shorter. As of 30 June 2023, the Group recognized right-of-use assets with an amount of RMB149.6 million (as of 31 December 2022: RMB188.4 million).

Inventories

Inventories mainly represented the food ingredients used in restaurant operation. Inventories increased from RMB24.2 million as of 31 December 2022 to RMB25.8 million as of 30 June 2023. For the year ended 31 December 2022 and for the six months ended 30 June 2023, the turnover days of inventories, which was equal to the average inventory at the beginning of the current year/current period and that at the end of the period divided by the costs of raw materials and consumables during the same period and multiplied by 365 days/181 days, decreased from 52 days to 40 days, which was mainly due to the normalization of restaurant operations after the pandemic, and thereby accelerated the inventory turnover speed.

Trade and other receivables

Trade and other receivables remained relatively stable at RMB90.3 million as of 31 December 2022 and RMB91.9 million as of 30 June 2023, among which, other receivables amounted to RMB77.0 million as of 31 December 2022 and RMB78.6 million as of 30 June 2023, respectively.

Trade and other payables

Trade and other payables decreased from RMB168.0 million as of 31 December 2022 to RMB160.9 million as of 30 June 2023. Among which, trade payables decreased from RMB53.9 million as of 31 December 2022 to RMB50.9 million as of 30 June 2023, and the turnover days decreased from 99 days for the year ended 31 December 2022 to 84 days for the six months ended 30 June 2023, which was attributable to the timely settlement of certain purchases.

Borrowings

As of 30 June 2023, the Group had bank borrowings of RMB12.0 million (as of 31 December 2022: RMB14.8 million).

Convertible bonds

As of 30 June 2023, convertible bonds and related interests of the Group totaled RMB585.2 million, representing an increase of RMB36.8 million as compared to RMB548.4 million as of 31 December 2022, which was mainly attributable to the interest incurred and as affected by the fluctuation of exchange rate during the reporting period.

Lease liabilities

As of 30 June 2023, the total lease liabilities amounted to RMB160.9 million, representing a decrease of 26.3% as compared to RMB218.2 million as of 31 December 2022, which was mainly attributable to the lease payment for certain existing leases during the reporting period, and the closure of certain restaurants during the second half of 2022.

FUTURE PROSPECTS

In the first half of 2023, as the COVID-19 pandemic came to an end, the consumption market recovered to a certain extent and industry competition gradually intensified. However, the potentials of the food and beverage industry remained unchanged in the long run, and leading brands and companies with sound fundamentals enjoying more competitive advantages. The Group will remain committed to the implementation of its strategic deployment, so as to continuously develop its core capabilities for value creation and bring rewards to the shareholders, including:

- (i) increasing the values of each brand and enterprise, so as to contribute profits to the listed company;
- (ii) expanding its franchise network and better serve the franchisors; and
- (iii) enhancing its digital development and operation capabilities.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2023 together with comparative figures for the last corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	305,248	268,104
Other income	4	12,716	6,622
Raw material used and changes in inventories of finished goods		(113,430)	(110,625)
Online platform service charges and delivery fees		(17,999)	(17,495)
Employee benefit expense		(86,630)	(85,605)
Depreciation of right-of-use assets		(35,784)	(48,277)
Depreciation and amortisation of other assets		(11,078)	(13,494)
Utility expenses		(7,979)	(10,110)
Property rentals and other related expenses		(9,542)	(9,073)
Other expenses	5	(24,820)	(23,700)
Provision for expected credit loss allowance for financial assets, net		(485)	(157)
Other gains/(losses), net		3,348	(2,932)
Finance income		53	142
Finance expenses		(4,751)	(7,221)
Interest on convertible bonds		(18,360)	(15,904)
Loss on fair value change on derivative financial instrument		—	(23,663)
Share of profit/(loss) of associates		4,195	(14,096)
Loss before taxation		(5,298)	(107,484)
Income tax (expense)/credit	6	(394)	193
Loss for the period	7	<u>(5,692)</u>	<u>(107,291)</u>
(Loss)/profit for the period attributable to:			
Equity holders of the Company		(8,559)	(100,877)
Non-controlling interests		2,867	(6,414)
		<u>(5,692)</u>	<u>(107,291)</u>

		Six months ended 30 June	
		2023	2022
<i>Notes</i>		RMB'000	RMB'000
		(unaudited)	(unaudited)
Other comprehensive loss			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(9,408)</u>	<u>(10,426)</u>
Other comprehensive loss for the period		<u>(9,408)</u>	<u>(10,426)</u>
Total comprehensive loss for the period		<u><u>(15,100)</u></u>	<u><u>(117,717)</u></u>
Total comprehensive (loss)/income for the period attributable to:			
— Equity holders of the Company		(17,967)	(111,303)
— Non-controlling interests		<u>2,867</u>	<u>(6,414)</u>
		<u><u>(15,100)</u></u>	<u><u>(117,717)</u></u>
Loss per share attributable to equity holders of the Company:			
Loss per share (RMB cents) — Basic	9	<u><u>(0.54)</u></u>	<u><u>(6.39)</u></u>
Loss per share (RMB cents) — Diluted	9	<u><u>(0.54)</u></u>	<u><u>(6.39)</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Non-Current Assets			
Property, plant and equipment		71,237	80,140
Right-of-use assets		149,574	188,381
Investments in associates		262,816	249,104
Goodwill		45,495	45,495
Intangible assets		472,189	472,806
Deferred tax assets		61,039	61,368
Other receivables	11	18,314	17,727
Other non-current assets		<u>579</u>	<u>1,843</u>
		<u>1,081,243</u>	<u>1,116,864</u>
Current Assets			
Inventories		25,828	24,211
Trade and other receivables	11	73,609	72,610
Other current assets		29,817	27,146
Financial assets at fair value through profit or loss		51,591	66,721
Cash and cash equivalents		36,318	34,097
Restricted cash		<u>1,600</u>	<u>1,707</u>
		<u>218,763</u>	<u>226,492</u>
Total Assets		<u><u>1,300,006</u></u>	<u><u>1,343,356</u></u>

		As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
	<i>Notes</i>		
Current Liabilities			
Trade and other payables	12	160,925	167,980
Contract liabilities		64,457	62,979
Lease liabilities		55,509	72,216
Borrowings	13	12,000	14,820
Tax payable		5,190	5,213
Convertible bonds — interest payable due within one year	14	16,891	16,366
		<u>314,972</u>	<u>339,574</u>
Non-Current Liabilities			
Convertible bonds	14	568,275	532,024
Lease liabilities		105,381	145,946
Deferred tax liabilities		114,021	114,021
Deferred government grants		1,030	1,183
		<u>788,707</u>	<u>793,174</u>
Total Liabilities		<u>1,103,679</u>	<u>1,132,748</u>
Capital and Reserves			
Share capital		133,023	133,023
Reserves		2,629	19,777
Equity attributable to equity holders of the Company		135,652	152,800
Non-controlling interests		60,675	57,808
Total Equity		<u>196,327</u>	<u>210,608</u>
Total Liabilities and Equity		<u>1,300,006</u>	<u>1,343,356</u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

As of 30 June 2023, the Group’s current liabilities exceeded its current assets by RMB96,209,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Group’s ability to generate net cash inflows from its future operating activities, the directors of the Company believe that adequate funding is available to fulfill the Group’s debt obligations and capital expenditure requirements during the 12-month period from 30 June 2023. Therefore, the condensed consolidated interim financial information has been prepared on the going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for financial assets at fair value through profit or loss and derivative financial instrument that are measured at fair values.

The accounting policies applied to the preparation of this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements. A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards, except for the Amendments to HKAS 12. Upon adoption of the Amendments to HKAS 12, the Group recognizes deferred tax assets and deferred tax liabilities for the temporary differences associated with right-of-use assets and lease liabilities at the beginning of the earliest comparative period (1 January 2022). The adoption of this amendment did not have any material impact on the condensed consolidated interim financial information.

Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published but are not mandatory for 30 June 2023 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. REVENUE AND SEGMENT INFORMATION

The Company's executive directors are the chief operating decision maker (the "CODM"). The CODM periodically reviews the Group's internal report in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

During the period ended 30 June 2023 and 2022, the CODM 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 reviewed. Accordingly, no operating segment information is presented.

Disaggregation of revenue from contracts with customers

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Restaurant operation	168,760	158,979
Delivery business	104,458	89,113
Sale of food ingredients	32,030	20,012
Total	305,248	268,104

The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of revenue. Also, none of the Group's non-current assets is located outside the PRC. Accordingly, no geographical information is presented.

The Group has a large number of customers. For the six months ended 30 June 2023 and 2022, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Franchise income	5,249	2,978
Government grants (a)	5,172	1,926
Investment income on wealth management products	558	947
Management service income (b)	444	—
Interest income on loans	191	144
Others	1,102	627
	12,716	6,622

(a) Government grants are mainly from tax refund in accordance with relevant tax policies and amortization of deferred government grants from assets-related government grants. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

(b) Management service income mainly includes service fees received by the Group in relation to the provision of commercial, management and administrative support services.

5. OTHER EXPENSES

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Daily maintenance expenses	7,795	7,658
Advertising and marketing expenses	4,837	4,010
Business development expense	3,313	3,011
Professional fees	2,071	1,581
Auditors' remuneration		
— Audit services	1,000	1,000
— Non-audit services	—	—
Other expenses	<u>5,804</u>	<u>6,440</u>
Total other expense	<u>24,820</u>	<u>23,700</u>

6. INCOME TAX EXPENSE/(CREDIT)

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current income tax		
Hong Kong profits tax	—	—
PRC enterprise income tax (“EIT”)	<u>—</u>	<u>—</u>
	—	—
Deferred tax	<u>394</u>	<u>(193)</u>
	<u>394</u>	<u>(193)</u>

Cayman Islands

The Company is incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

Hong Kong

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. (2022: 16.5%).

The PRC

Under the Law of the PRC on Enterprise Income Tax and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

7. LOSS FOR THE PERIOD

The Group's loss for the period has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	Unaudited	Unaudited
Depreciation of right-of-use assets	35,784	48,277
Depreciation of property, plant and equipment	10,357	12,757
Amortization of intangible assets	721	737
	<u>46,862</u>	<u>61,771</u>
Total depreciation and amortization		
Property rentals		
— office premises (fixed payments)	317	473
— restaurants		
— fixed payments	5,103	586
— variable lease payments	1,494	812
— COVID-19-related rent concessions	(4,082)	(1,474)
Property management fee	6,710	8,676
	<u>9,542</u>	<u>9,073</u>
Total property rentals and other related expenses		
Auditor's remuneration		
— Audit service	1,000	1,000
— Non-audit services	—	—
	<u>—</u>	<u>—</u>

8. DIVIDENDS

The board of directors of the Company has determined not to declare interim dividend for the six months ended 30 June 2023 (2022: nil).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to equity holders of the Company of RMB8,559,000 (2022: loss of RMB100,877,000) and the weighted average number of ordinary shares in issue of 1,578,664,000 (2022: 1,578,664,000) shares during the period.

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under convertible bonds, share option scheme and share award scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The computation of diluted loss per share for the six months ended 30 June 2023 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease loss per share.

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited Six months ended 30 June 2023 <i>RMB'000</i>	Audited Year ended 31 December 2022 <i>RMB'000</i>
Opening balance	—	22,543
Fair value change	—	(23,754)
Exchange difference	—	1,211
	<hr/>	<hr/>
Closing balance	<hr/> <hr/>	<hr/> <hr/>

On 13 January 2020, the Company and United Strength Victory Limited (“**2020 Investor**”, a related party of the Company) entered into an agreement (the “**2020 Investment Agreement**”) in relation to the issuance of convertible bonds in the aggregate principal amount up to HK\$780,000,000 for a total consideration equal to the principal amount of the convertible bonds. The 2020 Investment Agreement was approved by the Company's shareholders on 28 May 2020.

Pursuant to the 2020 Investment Agreement, at any time during the 2 years commencing from 29 May 2020 the Company may deliver subscription request(s) to the 2020 Investor requesting the 2020 Investor to subscribe for convertible bonds in the principal amount as specified in such subscription request(s). As a result, the directors of the Company are of the view that the above put option constituted a derivative financial instrument for the Company and should be accounted for as a financial asset at fair value through profit or loss.

The initial fair value of the derivative financial instrument at the recognition date which amounted to RMB46,631,000 was recognised as a deemed contribution from shareholder and recorded in shareholder's equity on special reserve. Subsequent change in fair value of the derivative financial instrument is recognised in profit or loss. The Company did not exercise the put option which expired on 28 May 2022. As a result, the derivative financial instrument was derecognised upon expiry.

11. TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
Trade receivables	13,667	13,737
Other receivables	<u>91,531</u>	<u>89,743</u>
Total trade and other receivables	<u>105,198</u>	<u>103,480</u>
Less: provision for expected credit loss allowance for trade receivables	(361)	(361)
provision for expected credit loss allowance for other receivables	<u>(12,914)</u>	<u>(12,782)</u>
Trade and other receivables — net	<u>91,923</u>	<u>90,337</u>
Including:		
Current portion		
Trade receivables — net	13,306	13,376
Other receivables — net	<u>60,303</u>	<u>59,234</u>
	<u>73,609</u>	<u>72,610</u>
Non-current portion		
Other receivables — net	<u>18,314</u>	<u>17,727</u>
Trade and other receivables — net	<u>91,923</u>	<u>90,337</u>

The aging analysis of trade receivables based on the invoice date at the end of the reporting period is as follows:

	Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
Within 6 months	11,512	11,500
6 months to 1 year	<u>2,155</u>	<u>2,237</u>
	<u>13,667</u>	<u>13,737</u>

12. TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
Trade payables	50,949	53,855
Other payables and accruals	<u>109,976</u>	<u>114,125</u>
	<u><u>160,925</u></u>	<u><u>167,980</u></u>

The aging analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
Within 6 months	49,794	52,565
Over 6 months	<u>1,155</u>	<u>1,290</u>
	<u><u>50,949</u></u>	<u><u>53,855</u></u>

13. BORROWINGS

	Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
Current		
<i>Secured</i>		
Bank borrowings (c)	<u>—</u>	<u>3,820</u>
<i>Guaranteed</i>		
Bank borrowings (d)	<u>2,000</u>	<u>1,000</u>
<i>Unsecured and unguaranteed</i>		
Bank borrowings	<u><u>10,000</u></u>	<u><u>10,000</u></u>

(a) **Maturity of borrowings**

	Unaudited As at 30 June 2023 <i>RMB'000</i>	Audited As at 31 December 2022 <i>RMB'000</i>
12 months or less	<u>12,000</u>	<u>14,820</u>

(b) **Weighted average annual interest rates**

	Unaudited As at 30 June 2023 <i>RMB'000</i>	Audited As at 31 December 2022 <i>RMB'000</i>
Bank borrowings	3.50%	4.01%

(c) As at 30 June 2023, the Group did not have any secured borrowings. As at 31 December 2022, bank borrowings of RMB3,820,000 were secured by certain property, plant and equipment of the Group.

(d) As at 30 June 2023, bank borrowings of RMB2,000,000 were guaranteed by a third party (31 December 2022: RMB1,000,000).

14. CONVERTIBLE BONDS

	Unaudited As at 30 June 2023 <i>RMB'000</i>	Audited As at 31 December 2022 <i>RMB'000</i>
Current		
Convertible bonds — interest payable due within one year	<u>16,891</u>	<u>16,366</u>
Non-current		
Convertible bonds	<u>568,275</u>	<u>532,024</u>

The interest payable of convertible bonds (the “**Convertible Bonds**”) issued by the Company to Sonic Tycoon Limited (the “**Investor**”), accrued from 23 November 2018 to 23 November 2022 at the coupon rate of 3% per annum, which amounted to HK\$73,402,000 (the “**2022 Due Interest**”). On 19 December 2022, the Investor sent a notice to the Company, in which the Investor agreed the Company to postpone the payment date of the 2022 Due Interest to 23 November 2025.

As at 30 June 2023, current portion of the convertible bonds amounted to HK\$18,320,000 (equivalent to approximately RMB16,891,000), which represented interest payable from 23 November 2022 to 23 November 2023 and was calculated at the coupon rate of 3% per annum. The remaining amount of the convertible bonds were classified as non-current liabilities.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond at the issue date. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity on special reserve.

The movement in the components of the Convertible Bonds during the six months ended 30 June 2022 and 2023 are as follows:

	Liability component <i>RMB'000</i>	Equity component <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2022 (Unaudited)			
As at 1 January 2022	502,068	104,294	606,362
Interest expenses (<i>Note</i>)	15,904	—	15,904
Exchange difference	25,478	—	25,478
As at 30 June 2022	543,450	104,294	647,744
Six months ended 30 June 2023 (Unaudited)			
As at 1 January 2023	548,390	104,294	652,684
Interest expenses (<i>Note</i>)	18,360	—	18,360
Exchange difference	18,416	—	18,416
As at 30 June 2023	585,166	104,294	689,460

Note: The interest expense of RMB18,360,000 (2022: RMB15,904,000) was calculated using the effective interest method.

15. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2023 and up to the date of this results announcement, no important event affecting the Group had occurred.

16. The condensed consolidated interim financial information is unaudited but has been reviewed by the audit committee of the Company.

INTERIM DIVIDEND

The Board has resolved not to declare interim dividend for the six months ended 30 June 2023 (2022: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2023 was RMB196.3 million (31 December 2022: RMB210.6 million). As at 30 June 2023, the Group had current assets of RMB218.8 million (31 December 2022: RMB226.5 million) and current liabilities of RMB315.0 million (31 December 2022: RMB339.6 million). The current ratio was 0.69 as at 30 June 2023 as compared to 0.67 as at 31 December 2022.

The Group generally finances its operations and possible redemption with internally generated cash flow, bank borrowings and convertible bonds. As at 30 June 2023, the Group had outstanding bank borrowings of RMB12.0 million (31 December 2022: 14.8 million). As at 30 June 2023, the Group maintained cash and cash equivalents of RMB36.3 million (31 December 2022: RMB34.1 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total bank borrowings over shareholders' equity) was 0.12 as at 30 June 2023 (31 December 2022: 0.09).

As at 30 June 2023, the Group had outstanding convertible bonds of RMB585.2 million (31 December 2022: RMB548.4 million). Please refer to Note 14 to the condensed consolidated financial results of the Company in this announcement for further details.

The Group possesses sufficient cash and available financing facilities to meet its commitments and working capital requirements. Considering the Group's ability to generate net cash inflows from its future operating activities, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements during the 12 months period from 30 June 2023. Based on the above, considering the Company's ability to generate net cash inflows from its future operating activities, the assets held by the Company and the extension of the maturity date of the convertible bonds, to the best knowledge of the Directors, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible bonds issued by the Company.

The capital structure of the Group consists of debts, which include convertible bonds, lease liabilities and borrowings, and equity attributable to equity holders of the Company, comprising share capital and reserves.

CAPITAL COMMITMENTS

As at 30 June 2023, the Group had no capital expenditure contracted for but not provided in the consolidated financial results in respect of property, plant and equipment (31 December 2022: nil).

SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2023, the Company did not hold any significant investment with a value of 5% or more of the Company's total assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposal of subsidiaries, associates or joint ventures during the six months ended 30 June 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group currently has no definite plans for material investments and capital assets as at the date of this announcement.

CHARGE ON ASSETS

As at 30 June 2023, there was no charge over the assets of the Group. As at 31 December 2022, the Group's buildings with net book value of RMB22.2 million were pledged as securities for the Group's borrowings.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities (31 December 2022: nil).

GEARING RATIO

As at 30 June 2023, the Group's gearing ratio was 74% (31 December 2022: 72%). This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" and convertible bonds as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are principally conducted in HK dollars and RMB which are exposed to foreign currency risk with respect to transactions denominated in currencies other than HK dollars and RMB. Foreign exchange risk arises from recognised assets and liabilities and net investments in foreign operations. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the six months ended 30 June 2023 (31 December 2022: nil).

HUMAN RESOURCES

As at 30 June 2023, the Group had a workforce of about 2,214 people (31 December 2022: about 2,162 people). The Group maintains a good relationship with its employees, and provides them with proper training and competitive compensation and incentives. The staff are remunerated based on their work performance, professional experience and prevailing market situation.

Remuneration packages comprise salary and bonuses based on individual merits. In addition, the Company had adopted a share award scheme on 11 November 2019 to provide incentives to the employees of the Group and to recognise their contributions to the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2023, the Company has complied with the code provisions set out in Part 2 of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in force.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code. The Company has made specific enquiry with all Directors and they have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2023.

AUDIT COMMITTEE

The unaudited interim results of the Group for the six months ended 30 June 2023 have not been reviewed by the auditors of the Company but have been reviewed by the audit committee of the Company, which comprises all the independent non-executive Directors. The audit committee of the Company has also discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

INTERIM REPORT

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.bestfoodholding.com). The interim report of the Company for the six months ended 30 June 2023 will be despatched to the shareholders of the Company and will be available on websites of the Stock Exchange and the Company in due course.

By order of the Board
Best Food Holding Company Limited
Zhao John Huan
Chairman

Hong Kong, 30 August 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Zhao John Huan, Mr. Wang Xiaolong and Mr. Jing Shen and three independent non-executive Directors, namely, Mr. Leung Kwai Kei, Mr. Heng Victor Ja Wei and Mr. Lo Wei-Ren.