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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 2021

FINANCIAL HIGHLIGHTS

	For the six months ended	
	30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue	370,225	243,816
Profit/(loss) before taxation	3,478	(113,585)
Profit/(loss) for the period	1,153	(105,985)
Net profit/(loss) attributable to equity holders of the Company	5,242	(94,591)
Earnings /(loss) per share attributable to equity holders of the Company:		
Earnings/(loss) per share (RMB cents) — basic and diluted	0.33	(5.99)

REVIEW OF THE INTERIM RESULTS

In the first half of 2021, despite the occasional outbreaks in certain regions from time to time, the novel coronavirus disease (COVID-19) pandemic (the “**COVID-19 Pandemic**”) has stabilized in general, and the food and beverage industry has gradually returned to normal. Certain brands with outstanding performance in terms of products, branding and organizational strengths were able to distinguish themselves from their peers and realise accelerated growth. With its investments in the food and beverage industry in a systematic manner in earlier years, Best Food Holding Company Limited (the “**Company**” or “**Best Food**”, together with its subsidiaries, collectively the “**Group**”), has established a multi-brand, multi-category and multi-location food and beverage brand portfolio. Meanwhile, with about five years of practical experience accumulated, Best Food has gradually built up its comprehensive strengths including operational, digital and investment empowerment. Through the performance in these three aspects, it is expected that Best Food will seize the opportunities arising from this round of accelerated growth to develop itself into a “new” digital-based and multi-brand food and beverage platform company and enhance its corporate values.

During the six months ended 30 June 2021, the Group’s total system sales, constituting sales of all restaurants, both owned and franchised under the brands of the Group, increased significantly from RMB564.3 million in aggregate for the six months ended 30 June 2020 to RMB1,084.5 million for the corresponding period of 2021, representing an increase of 92.2%. Among which, half of the brands recorded an increase of over 100%.

Operational empowerment: As of 30 June 2021, the number of direct owned and franchise stores under the brands of Best Food exceeded 600 in total. Among which, 419 were direct owned stores and 182 were franchise stores, respectively. On one hand, Best Food vigorously developed its direct operation business. For instance, Best Food introduced brands located in Southern China such as Fook and Dafulan to open direct owned stores in Beijing-Tianjin-Hebei region. Meanwhile, Best Food has established a joint venture in Northwestern China with an experienced franchisee, through which it has expanded the quality catering brands of Best Food into various provinces such as Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang by leveraging the mature management experience of the franchisee. On the other hand, Best Food actively expanded its franchise business. During the first half of 2021, the Group completed the preliminary franchise model for a number of brands under Best Food to facilitate the operation of franchisees under different business environment based on their local conditions. Xinladao developed Fanjiang Fresh Fish Hotpot (翻江鮮魚火鍋), a young sub-brand, and Xinladao Spindle Edge Fish Small Store Layout (新辣道梭邊魚小模型店), a small store layout that is more suitable for second- and third-tier cities. Based its business within a 1,000 km radius of Beijing, HHG proactively developed its franchise stores in Nanjing, Zhengzhou and other cities. Given its highly standardized products and capability to adapt to the flavours of customers across a wide range of regions, Yujian Xiaomian achieved remarkable results in cross-region expansion and was widely favoured by franchisees. Clay Pot King was renamed as King of Clay Pot (煲仔皇) with adapted flavour to cater for Southern China market, upon which it has achieved rapid expansion and

outstanding results of its franchise stores in Eastern China including Nanjing and Hefei. Dafulan and Fook both developed small store layout that involves smaller investment amount, which is favourable to the expansion of their franchise stores into second- and third-tier markets.

Digital empowerment: In the first half of 2021, the Group's brands launched WeChat and Alipay Mini Programs to further enhance service efficiency and customer experience. With the combined effects of other various measures, the number of members with stored value and loyalty points increased from approximately 11.6 million at the beginning of the year to approximately 15.0 million as at 30 June 2021. In June 2021, Best Food entered into an in-depth business cooperation agreement with Alibaba Cloud in respect of digitalization, aiming to jointly develop a multi-brand data middle-end platform. Looking forward, through the data analysis products of Alibaba Cloud and the self-review methodologies implemented by Best Food, the Group will establish a customer demand-oriented data analysis system of Best Food, thereby realizing the "digital and intelligent" transformation and operation enhancement of Best Food.

Investment empowerment: Since its establishment, Best Food has carried out multi-category and systematic investment layout in the catering industry. By far, most of the joint-stock brands saw significant growth in business volumes as compared to that at initial investment. For instance, King of Clay Pot (煲仔皇) (formerly known as Clay Pot King) received two rounds of investment from Tibet Yuankun, a subsidiary of Century Golden Resources Group, in February and June 2021 respectively. Yujian Xiaomian received two rounds of investment from a fund under Shenzhen Country Garden Venture Capital Co., Ltd., as a result of which its valuation as at 28 June 2021 has nearly tripled as compared with that as at 2 March 2021. Furthermore, it is expected that various other brands will be able to obtain a new round of financing in the second half of 2021 in light of their outstanding results performance. As the investment in associates was calculated by using the equity method (instead of the fair value approach), the contribution of the abovementioned increase in valuation has not been reflected in the statement of profit or loss. In the first half of 2021, Best Food has realised gains through the disposal of a small amount of investment in associates, which demonstrated the feasibility of investment empowerment.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased by 51.8% from RMB243.8 million for the six months ended 30 June 2020 to RMB370.2 million for the corresponding period of 2021, among which revenue from restaurant operation increased by 46.4% from RMB171.0 million for the six months ended 30 June 2020 to RMB250.4 million for the corresponding period of 2021, which was mainly attributable to the fact that store operation basically resumed normal and customer traffic of restaurants increased during the reporting period upon the improvement of the COVID-19 Pandemic situation. Revenue from delivery business increased by 62.2% from RMB60.8 million for the six months ended 30 June 2020 to RMB98.6 million for the corresponding period of 2021, which was mainly attributable to the increase in the number of delivery orders.

Raw material used and changes in inventories of finished goods

Raw material used and changes in inventories of finished goods increased by 61.1% from RMB92.7 million for the six months ended 30 June 2020 to RMB149.3 million for the corresponding period of 2021, which was mainly attributable to the fact that store operation basically resumed normal during the reporting period upon the improvement of the COVID-19 Pandemic situation. Raw material used and changes in inventories of finished goods as a percentage of revenue were 38.0% for the six months ended 30 June 2020 and 40.3% for the six months ended 30 June 2021, respectively.

Service fees for online platforms and delivery fees

Service fees for online platforms and delivery fees increased by 22.0% from RMB17.3 million for the six months ended 30 June 2020 to RMB21.1 million for the corresponding period of 2021, which was mainly attributable to the fact that the operation basically resumed normal during the reporting period upon the improvement of the COVID-19 Pandemic. Service fee for online platforms and delivery fees as a percentage of revenue decreased from 7.1% for the six months ended 30 June 2020 to 5.7% for the six months ended 30 June 2021, which was mainly due to the recovery of revenue during the reporting period.

Employees benefit expenses

Employees benefit expenses increased by 30.2% from RMB84.9 million for the six months ended 30 June 2020 to RMB110.5 million for the corresponding period of 2021, which was mainly attributable to the increase in number of staff and their working hours due to the resumption of operation. Employees benefit expenses as a percentage of revenue decreased from 34.8% for the six months ended 30 June 2020 to 29.8% for the corresponding period of 2021, which was mainly contributed by the recovery of revenue during the reporting period.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 0.4% from RMB52.7 million for the six months ended 30 June 2020 to RMB52.5 million for the corresponding period of 2021. Depreciation of right-of-use assets as a percentage of revenue decreased from 21.6% for the six months ended 30 June 2020 to 14.2% for the corresponding period of 2021, which was mainly due to the recovery of revenue during the reporting period.

Depreciation and amortisation

Depreciation and amortisation decreased by 8.8% from RMB22.7 million for the six months ended 30 June 2020 to RMB20.7 million for the corresponding period of 2021. Depreciation and amortisation as a percentage of revenue decreased from 9.3% for the six months ended 30 June 2020 to 5.6% for the corresponding period of 2021, which was mainly due to the closure of certain underperforming restaurants and disposal of underlying assets with lower revenue contribution at the beginning of 2021.

Water, electricity and fuel

Water, electricity and fuel increased by 36.4% from RMB9.9 million for the six months ended 30 June 2020 to RMB13.5 million for the corresponding period of 2021, which was mainly attributable to the resumption of normal operation of restaurants with the COVID-19 Pandemic being brought under effective control. Water, electricity and fuel as a percentage of revenue decreased from 4.1% for the six months ended 30 June 2020 to 3.6% for the corresponding period of 2021, which was mainly due to the recovery of revenue during the reporting period.

Other expenses

Other expenses decreased by 6.1% from RMB37.5 million for the six months ended 30 June 2020 to RMB35.2 million for the corresponding period of 2021, which was attributable to resumption of operation and mainly reflected (i) the increase in advertising costs of RMB3.5 million; (ii) the increase in transportation expenses of RMB1.1 million; and (iii) the decrease in impairment of property, plant and equipment of RMB10.2 million. Other expenses as a percentage of revenue decreased from 15.4% for the six months ended 30 June 2020 to 9.5% for the corresponding period of 2021, which was mainly due to the increase in revenue after the COVID-19 Pandemic became under control.

Share of profits of associates

Share of profits of associates amounted to RMB2.4 million for the six months ended 30 June 2021, while the share of loss of associates amounted to RMB11.8 million for the corresponding period of 2020, which was mainly attributable to the recovery of the operating results of associates after the COVID-19 Pandemic became under control.

Investment gain from associates

Investment gain from associates amounted to RMB56.5 million for the six months ended 30 June 2021, which was mainly attributable to the increase in cost of investment in associates and the increase in net assets of associates resulting from the new round of financing obtained during the reporting period, as well as the investment gain from the disposal of a small amount of equity interests in associates by the Group.

Finance expenses

Finance expenses decreased by 13.9% from RMB26.7 million for the six months ended 30 June 2020 to RMB23.0 million for the corresponding period of 2021, which was mainly attributable to the decrease in interest on convertible bonds and interest on lease liabilities.

Income tax expenses

Income tax credit amounted to RMB7.6 million for the six months ended 30 June 2020, while the income tax expenses amounted to RMB2.3 million for the corresponding period of 2021, which was mainly attributable to the withholding tax payable of RMB2.7 million in relation to the disposal of equity interests in associates in 2021.

Profit for the period

The Group recorded profit for period for the six months ended 30 June 2021 of approximately RMB1.2 million, as compared to loss of RMB106.0 million for the six months ended 30 June 2020, which was mainly attributable to the gradual recovery of the Group's operations from the COVID-19 pandemic and the gain on partial disposal of equity interests in associates.

Right-of-use assets

Under IFRS 16 Leasing (“**IFRS 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 2021, the Group recognized right-of-use assets with an amount of RMB275.9 million.

Investment in associates

As of 30 June 2021, the total investment in associates amounted to RMB233.9 million, representing an increase of 6.3% as compared to RMB220.0 million for the corresponding period of 2020, which was mainly attributable to the addition of new associates and additional investments in existing associates with an aggregate amount of approximately RMB8.9 million made during the six months ended 30 June 2021. These associates are principally engaged in operation of restaurants or food ingredients processing business.

Inventories

Inventories mainly represented the food ingredients used in restaurant operation. Inventories decreased from RMB32.3 million as of 31 December 2020 to RMB30.1 million as of 30 June 2021, which was mainly attributable to the increase in inventory turnover rate due to enhanced management. For the year ended 31 December 2020 and for the six months ended 30 June 2021, 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 64 days to 38 days.

Trade and other receivables

Trade and other receivables increased by 82.3% from RMB68.5 million as of 31 December 2020 to RMB124.9 million as of 30 June 2021, among which, other receivables increased by 103.1% from RMB54.4 million as of 31 December 2020 to RMB110.5 million as of 30 June 2021, which was mainly attributable to the receivables from the transfer of equity interests in associates during the six months ended 30 June 2021.

Trade and other payables

Trade and other payables increased from RMB150.2 million as of 31 December 2020 to RMB155.5 million as of 30 June 2021, which was mainly attributable to the increase in procurement of materials due to resumption of operating activities. Among which, trade payables decreased from RMB70.9 million as of 31 December 2020 to RMB66.2 million as of 30 June 2021, and the turnover days decreased from 119 days for the year ended 31 December 2020 to 83 days for the six months ended 30 June 2021, which was mainly attributable to the fact that restaurant operation basically resumed normal during the reporting period upon the improvement of the COVID-19 Pandemic situation.

Bank borrowings

As of 30 June 2021, the Group had bank borrowings of RMB15.0 million (as of 31 December 2020: RMB15.0 million).

Convertible bonds

As of 30 June 2021, convertible bonds and related interests of the Group totalled RMB495.9 million, representing an increase of RMB10.5 million as compared to RMB485.4 million as of 31 December 2020, 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 2021, the total lease liabilities amounted to RMB285.7 million, representing a decrease of 9.6% as compared to RMB316.2 million as of 31 December 2020, which was mainly attributable to the closure of certain underperforming restaurants during the reporting period.

FUTURE PROSPECTS

Going forward, the Group's development initiatives mainly include:

- Improving single-store model and brand image, enhancing quality of products and services, increasing the values of customers and enhancing single-store profitability;
- Continuing to expand the store scale of the Group's brands by implementing the expansion strategy of and providing management support for integration of direct owned stores and franchise stores; expediting the development of digital user operation system with a view to comprehensively promoting the innovative user operation services-oriented management concept and corporate culture; and
- Further enhancing the Group's investment empowerment capability to continuously increase the profit contribution of associates of Best Food to the Group's financial statement as well as maximize the interests of the shareholders of the Company in the future.

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 2021 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 2021

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Revenue	3	370,225	243,816
Other income	4	8,653	3,191
Raw material used and changes in inventories of finished goods		(149,316)	(92,723)
Online platform service charges and delivery fees		(21,105)	(17,321)
Employee benefit expense		(110,479)	(84,935)
Depreciation of right-of-use assets		(52,471)	(52,696)
Depreciation and amortisation		(20,708)	(22,684)
Water, electricity and fuel		(13,481)	(9,879)
Property management fee		(10,576)	(10,648)
Other expenses		(35,215)	(37,462)
Gain on partial disposal and dilution of investments in associates	5	56,537	—
Share of profit/(loss) of associates		2,428	(11,839)
Other gains/(losses) — net		191	(3,664)
Gain on fair value change on derivative financial instruments	10	1,781	9,920
Finance expenses — net	6	<u>(22,986)</u>	<u>(26,661)</u>
Profit/(loss) before taxation		3,478	(113,585)
Income tax (expense)/credit	7	<u>(2,325)</u>	<u>7,600</u>
Profit/(loss) for the period		<u>1,153</u>	<u>(105,985)</u>

		Six months ended 30 June	
		2021	2020
<i>Notes</i>		RMB'000	RMB'000
		(unaudited)	(unaudited)
Profit/(loss) for the period attributable to:			
Equity holders of the Company		5,242	(94,591)
Non-controlling interests		<u>(4,089)</u>	<u>(11,394)</u>
		<u>1,153</u>	<u>(105,985)</u>
Other comprehensive income/(loss)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>381</u>	<u>(4,712)</u>
Other comprehensive income/(loss) for the period		<u>381</u>	<u>(4,712)</u>
Total comprehensive income/(loss) for the period		<u>1,534</u>	<u>(110,697)</u>
Total comprehensive income/(loss) for the period attributable to:			
— Equity holders of the Company		5,623	(99,303)
— Non-controlling interests		<u>(4,089)</u>	<u>(11,394)</u>
		<u>1,534</u>	<u>(110,697)</u>
Earnings/(loss) per share attributable to equity holders of the Company:			
Earnings/(loss) per share (RMB cents) — Basic	9	<u>0.33</u>	<u>(5.99)</u>
Earnings/(loss) per share (RMB cents) — Diluted	9	<u>0.33</u>	<u>(5.99)</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2021 <i>RMB'000</i> (unaudited)	As at 31 December 2020 <i>RMB'000</i> (audited)
Non-Current Assets			
Property, plant and equipment		124,439	124,832
Right-of-use assets		275,883	304,244
Investments in associates		233,887	220,026
Goodwill		580,931	580,931
Intangible assets		505,072	505,763
Derivative financial instruments	<i>10</i>	73,192	72,226
Deferred tax assets		33,712	33,560
Trade and other receivables	<i>11</i>	28,609	29,213
Financial assets at fair value through other comprehensive income		5,000	5,000
Other non-current assets		1,358	1,284
		<u>1,862,083</u>	<u>1,877,079</u>
Current Assets			
Inventories		30,119	32,338
Trade and other receivables	<i>11</i>	96,242	39,320
Other current assets		56,341	57,302
Financial assets at fair value through profit or loss		39,113	27,931
Cash and cash equivalents		69,742	123,741
		<u>291,557</u>	<u>280,632</u>
Total Assets		<u><u>2,153,640</u></u>	<u><u>2,157,711</u></u>

		As at 30 June 2021 <i>RMB'000</i> (unaudited)	As at 31 December 2020 <i>RMB'000</i> (audited)
	<i>Notes</i>		
Current Liabilities			
Trade and other payables	12	155,463	150,233
Contract liabilities		62,432	59,144
Lease liabilities		110,201	102,771
Borrowings	13	15,000	16,200
Tax payable		7,551	4,926
Convertible bonds-interest payable	14	45,837	45,837
		<u>396,484</u>	<u>379,101</u>
Non-Current Liabilities			
Convertible bonds	14	450,087	439,588
Lease liabilities		175,538	213,394
Deferred tax liabilities		121,790	121,790
Deferred government grants		2,366	3,167
		<u>749,781</u>	<u>777,939</u>
Total Liabilities		<u>1,146,265</u>	<u>1,157,040</u>
Capital and Reserves			
Share capital		133,023	133,023
Reserves		799,888	791,093
Equity attributable to equity holders of the Company		932,911	924,116
Non-controlling interests		74,464	76,555
Total Equity		<u>1,007,375</u>	<u>1,000,671</u>
Total Liabilities and Equity		<u>2,153,640</u>	<u>2,157,711</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 (“HKICPA”) 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”).

(i) As of 30 June 2021, the Group’s current liabilities exceeded its current assets by RMB104,927,000. 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 and the investment agreement entered into with a related party controlled by Exponential Fortune (the ultimate holding company of the Company) in relation to the issuance of convertible bonds by the Company (Note 10), 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 months period from 30 June 2021. Therefore, the financial statements have been prepared on the going concern basis.

(ii) Changes in presentation of the consolidated income statement

In previous years, the Group presented an analysis of expenses recognised in consolidated statement of comprehensive income using a classification based on their function. During the period, the Board of the Directors has performed a review of the content and presentation of the interim condensed consolidated financial information to ensure compliance with relevant accounting standards as well as comparable to those of the other market participants within the same industry and the business development and operation of the Group. In view of the Group’s results of operations mainly driven by the food and beverage business in the current period, the Board of Directors considered that it is appropriate to adopt an analysis of expenses recognised in consolidated statement of comprehensive income using a classification based on their nature which would be more relevant to the Group’s circumstances and for the users of the Group’s financial statements. The changes in presentation have been adopted retrospectively, and certain corporate figures have been restated. The changes in the presentation of the consolidated statement of comprehensive income did not have any impact of the Group’s profits/loss for the period or the calculation of the Group’s earnings/losses per share.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for investment properties, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, payable in relation to put right of non-controlling interests and defined benefit assets 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 2020, as described in those annual financial statements.

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 2021 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, which focus on types of goods or services delivered or provided, in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

Disaggregation of revenue from contracts with customers

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Restaurant operation	250,421	170,963
Delivery business	98,621	60,771
Sale of food ingredients	<u>21,183</u>	<u>12,082</u>
Total	<u>370,225</u>	<u>243,816</u>

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.

4. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Management service income (a)	2,830	—
Franchise income	2,412	313
Government grants	1,830	2,162
Investment income on wealth management products	888	721
Interest income on loans	204	412
Others	<u>489</u>	<u>(417)</u>
	<u>8,653</u>	<u>3,191</u>

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

5. GAIN ON PARTIAL DISPOSAL AND DILUTION OF INVESTMENTS IN ASSOCIATES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Net gains on partial disposal of investments in associates (a)	46,423	—
Net gains on dilution of investments in associates (b)	<u>10,114</u>	<u>—</u>
Total	<u><u>56,537</u></u>	<u><u>—</u></u>

- (a) During the six months ended 30 June 2021, the Group disposed certain interests in Guangzhou Yujian Xiaomian Catering Management Company Limited* (廣州遇見小麵餐飲管理有限公司) (“**Yujian Xiaomian**”) and Shenzhen Love’s Kitchen Internet and Technology Limited Company* (深圳魚羊美廚網絡科技有限公司) (“**Sexy Salad**”). Details of the disposal in Yujian Xiaomian are set out in the Company’s announcement dated 29 July 2021. Upon completion of the disposals, Yujian Xiaomian and Sexy Salad continue to be accounted for as an associate of the Group. As of the date of this announcement, the Group has not received the consideration, which have been included in other receivables in the interim condensed consolidated balance sheet as at 30 June 2021.
- (b) The amount represented the dilution gain on the Group’s investments in associates.
- (i) As at 31 December 2020, the Group’s interests in Yujian Xiaomian was 19.5%. During the six months ended 30 June 2021, Yujian Xiaomian issued new shares to certain investors. Consequently, the Group’s interests in Yujian Xiaomian was diluted from 19.5% to 19.1%. The difference between (1) the decrease in the carrying value of the Group’s interest in Yujian Xiaomian resulting from the decrease in shareholding; and (2) the Group’s share of the proceeds received for the new shares issued resulted in a dilution gain of RMB7,625,000 and was recognized in the consolidated statement of profit or loss for the six months ended June 30, 2021.
- (ii) As at 31 December 2020, the Group’s interests in Tianshuilai (Beijing) Catering Trade Management Co. Ltd (北京天水來餐飲管理有限公司) (“**Tianshuilai**”) was 26.26%. During the six months ended 30 June 2021, Tianshuilai issued new shares to certain investors. Consequently, the Group’s interests in Tianshuilai was diluted from 26.26% to 25.0%. The difference between (1) the decrease in the carrying value of the Group’s interest in Tianshuilai resulting from the decrease in shareholding; and (2) the Group’s share of the proceeds received for the new shares issued resulted in a dilution gain of RMB2,489,000 and was recognized in the consolidated statement of profit or loss for the six months ended 30 June 2021.

6. FINANCE INCOME AND EXPENSES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	<u>92</u>	<u>299</u>
Finance expenses		
Interest on convertible bonds	(16,010)	(17,880)
Interest on lease liabilities	(6,833)	(8,828)
Interest on bank borrowings	(196)	(23)
Interest on loan from a third party	—	(58)
Others	(39)	(171)
Less: Interest expenses capitalized	<u>—</u>	<u>—</u>
	<u>(23,078)</u>	<u>(26,960)</u>
Finance expenses, net	<u>(22,986)</u>	<u>(26,661)</u>

7. INCOME TAX EXPENSE/(CREDIT)

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax (“EIT”)	—	202
Withholding income tax on gain on partial disposal of investment in an associate	<u>2,707</u>	<u>—</u>
	2,707	202
Deferred tax	<u>(382)</u>	<u>(7,802)</u>
	<u>2,325</u>	<u>(7,600)</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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2021 and 2020.

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.

Withholding income tax on gain on partial disposal of investment in an associate

According to the Law of the PRC on Enterprise Income Tax, gain on partial disposal of investment in an associate recorded by a group entity incorporated in Hong Kong is subject to withholding tax at the tax rate of 10%.

8. DIVIDENDS

The board of directors of the Company has determined not to declare interim dividend for the six months ended 30 June 2021 (2020: nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share is based on the profits for the period attributable to equity holders of the Company of RMB5,242,000 (2020: loss of RMB94,591,000) and the weighted average number of ordinary shares in issue of 1,578,664,000 (2020: 1,578,664,000) shares during the period.

Diluted earnings/(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 year) 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.

Diluted earnings/(loss) per share is not presented because there were no dilutive potential ordinary shares for both periods.

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
As at 1 January	72,226	—
Addition	—	46,631
Fair value change	1,781	29,262
Exchange difference	(815)	(3,667)
As at 30 June	<u>73,192</u>	<u>72,226</u>

On 13 January 2020, the Company and United Strength Victory Limited (“Investor”, a related party and a connected person of the Company under Chapter 14A of the Listing Rules) 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 Investor requesting the 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. As at 31 December 2020 and 30 June 2021 the fair values of the derivative financial instrument were determined using the binomial valuation model, and the key inputs into the model at the respective dates were as follows:

	As at 30 June 2021	As at 31 December 2020
Conversion price	HK\$1.180	HK\$1.180
Share price	HK\$0.680	HK\$0.750
Expected volatility	22.1%	20.5%
Remaining life	0.91 years	1.41 years
Risk-free rate	0.03%	0.08%

11. TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
Trade receivables	14,689	14,460
Other receivables	112,111	55,999
	126,800	70,459
Less: provision for expected credit loss allowance for trade receivables	(332)	(309)
provision for expected credit loss allowance for other receivables	(1,617)	(1,617)
Trade and other receivables — net	124,851	68,533
Less: Non-current portion	(28,609)	(29,213)
Trade and other receivables — current portion	96,242	39,320

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 2021 <i>RMB'000</i>	Audited As at 31 December 2020 <i>RMB'000</i>
Within 6 months	12,895	12,658
6 months to 1 year	<u>1,462</u>	<u>1,802</u>
	<u>14,357</u>	<u>14,460</u>

12. TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2021 <i>RMB'000</i>	Audited As at 31 December 2020 <i>RMB'000</i>
Trade payables	66,222	70,865
Other payables and accruals	<u>89,241</u>	<u>79,358</u>
	<u>155,463</u>	<u>150,223</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 2021 <i>RMB'000</i>	Audited As at 31 December 2020 <i>RMB'000</i>
Within 6 months	52,448	61,578
Over 6 months	<u>13,774</u>	<u>9,287</u>
	<u>66,222</u>	<u>70,865</u>

13. BORROWINGS

	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
Current		
<i>Secured</i>		
Bank borrowings	5,000	5,000
<i>Unsecured</i>		
Bank borrowings	10,000	10,000
Loans from third parties	<u>—</u>	<u>1,200</u>
Total borrowings	<u>15,000</u>	<u>16,200</u>

(a) Maturity of borrowings

	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
6 months or less	—	1,200
6–12 months	<u>15,000</u>	<u>15,000</u>
	<u>15,000</u>	<u>16,200</u>

(b) Weighted average annual interest rates

	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
Bank borrowings	4.35%	4.35%
Loans from third parties	—	10.00%

14. CONVERTIBLE BONDS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Current		
Convertible bonds — interest payable	<u>45,837</u>	<u>45,837</u>
Non-current		
Convertible bonds	<u>450,087</u>	<u>439,588</u>

As at 30 June 2021, current portion of the convertible bonds amounted to HK\$54,465,000 (equivalent to approximately RMB45,837,000), which represented interest payable commencing from 23 November 2018 and was calculated at the coupon rate of 3% per annum. The remaining amount of the convertible bonds were classified as noncurrent 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 2020 and 2021 are as follows:

	Liability	Equity	Total
	component	component	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2020 (Unaudited)			
As at 1 January 2020	482,563	104,294	586,857
Interest expenses (i)	17,880	—	17,880
Exchange difference	9,965	—	9,965
At 30 June 2020	510,408	104,294	614,702
Six months ended 30 June 2021 (Unaudited)			
As at 1 January 2021	485,425	104,294	589,719
Interest expenses (i)	16,010	—	16,010
Exchange difference	(5,511)	—	(5,511)
At 30 June 2021	495,924	104,294	600,218

Note:

(i) The interest expense of RMB16,010,000 (2020: RMB17,880,000) was calculated using the effective interest method.

15. 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 2021. (2020: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2021 was RMB1,007.4 million (31 December 2020: RMB1,000.7 million). As at 30 June 2021, the Group had current assets of RMB291.6 million (31 December 2020: RMB280.6 million) and current liabilities of RMB396.5 million (31 December 2020: RMB379.1 million). The current ratio was 0.74 as at 30 June 2021 as compared to 0.74 as at 31 December 2020.

The Group generally finances its operations and possible redemption with internally generated cash flow, bank borrowings and convertible bonds issued to shareholder. As at 30 June 2021, the Group had outstanding bank borrowings of RMB15.0 million (31 December 2020: 15.0 million). As at 30 June 2021, the Group maintained bank balances and cash of RMB69.7 million (31 December 2020: RMB123.7 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total bank borrowings over shareholders' equity) was 0.05 as at 30 June 2021 (31 December 2020: 0.11).

As at 30 June 2021, the Group had outstanding convertible bonds of RMB450.1 million (31 December 2020: RMB439.6 million). Please refer to Note 14 to the consolidated financial results of the Company in this announcement for further details.

On 13 January 2020, the Company and United Strength Victory Limited (the "**Investor**") entered into an investment agreement (the "**2020 Investment Agreement**") pursuant to which the Company agreed to issue and the Investor agreed to subscribe for the convertible bond(s) with an aggregate principal amount of up to HK\$780,000,000 (the "**Subscription**"). The 2020 Investment Agreement was approved by the shareholders of the Company at the extraordinary general meeting held on 28 May 2020. Please refer to the announcement of the Company dated 13 January 2020, the circular of the Company dated 27 April 2020 and the poll results of the extraordinary general meeting of the Company dated 28 May 2020 for further details. As at the date of this announcement, completion of the Subscription pursuant to the 2020 Investment Agreement had not taken place.

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 and the 2020 Investment Agreement, 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 2021. Based on the above, 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 2021, the Group had no capital expenditure contracted for but not provided in the consolidated financial statements in respect of the property, plant and equipment improvement (31 December 2020: nil).

The Group has sufficient cash and ability to obtain banking facilities to meet the Group's capital and other commitments and working capital requirements.

EVENTS AFTER REPORTING PERIOD

There have been no significant events undertaken by the Group subsequent to 30 June 2021 and up to the date of this announcement.

SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2021, the Company has no 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 2021.

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 2021, save for the Group's buildings with net book value of RMB23.1 million (31 December 2020: RMB23.6 million) were pledged as securities for the Group's borrowings, there was no other charge over the assets of the Group.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any contingent liabilities (31 December 2020: nil).

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are principally conducted in HK dollars, RMB and US dollars which are exposed to foreign currency risk with respect to transactions denominated in currencies other than HK dollars, RMB and US dollars. 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 2021 (31 December 2020: nil).

HUMAN RESOURCES

As at 30 June 2021, the Group had a workforce of about 3,064 people (31 December 2020: about 3,352 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 2021, 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

The Company has complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) throughout the six months ended 30 June 2021.

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 2021.

AUDIT COMMITTEE

The unaudited interim results of the Group for the period 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 of Hong Kong Limited's website (www.hkex.com.hk) and the Company's website (<http://www.bestfoodholding.com>). The interim report of the Company will be despatched to the shareholders and will be available on websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

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

Hong Kong, 30 August 2021

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.

* *For identification purposes only*