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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 2022

FINANCIAL HIGHLIGHTS

| | For the six months ended | |
|---|--------------------------|--------------|
| | 30 June | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Revenue | 268,104 | 370,225 |
| Adjusted (loss)/profit for the period (Note) | (67,724) | 15,382 |
| Adjusted items | | |
| Interest on convertible bonds | (15,904) | (16,010) |
| (Loss)/gain on fair value change on derivative financial instrument | (23,663) | 1,781 |
| (Loss)/profit for the period | (107,291) | 1,153 |
| (Loss)/earnings per share attributable to equity holders of the Company: | | |
| (Loss)/earnings per share (RMB cents) — basic and diluted | (6.39) | 0.33 |

Note:

The adjusted (loss)/profit for the period is a non-GAAP financial measure and is calculated as the loss for the period excluding interest on convertible bonds of RMB15.9 million (2021: RMB16.0 million) and loss on fair value change on derivative financial instrument of RMB23.7 million (2021: gain of RMB1.8 million). The Group uses such unaudited adjusted loss as an additional financial measure to supplement the consolidated financial statements which are presented in accordance with HKFRS and to evaluate the financial performance of the Group by excluding the impact of certain non-operating and non-recurring items which the Group does not consider to be non-indicative of the performance of the business 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. Please see "Non-GAAP Financial Measure" for details.

* For identification purpose only

REVIEW OF THE INTERIM RESULTS

PERFORMANCE REVIEW

In the first half of 2022, the operation of the catering industry has been severely impacted by the recurring novel coronavirus (COVID-19) pandemic (the “**Pandemic**”) in many places across the country and the intensified prevention and control measures against the Pandemic. Best Food Holding Company Limited (the “**Company**” or “**Best Food**”) and its subsidiaries (collectively the “**Group**”) make active efforts to mitigate the impact of disruptions caused by the Pandemic, while constantly exploring and facilitating the improvement of the core capabilities that a catering company shall possess. Under the great short-term pressure, Best Food adheres to the long-term development policy and moves forward in a pragmatic manner, aiming to develop “new” digital-based and multi-brand food and beverage platform companies. On the basis of ensuring sufficient cash flows and sustainable operation, Best Food makes the best use of its limited resources to develop the platform companies through operational empowerment, digital empowerment and investment empowerment and has noted phased progress.

Operational Empowerment

As at 30 June 2022, the number of total direct-sale stores and franchised stores of Best Food exceeded 800 (including 537 direct-sale stores and 267 franchised stores), representing a significant increase as compared with approximately 700 as at 31 December 2021.

For the six months ended 30 June 2022, the Group’s total system sales (including sales of all direct-sale stores and franchised stores of the Group’s controlled and invested brands) increased by 13.4% from RMB1,084.5 million in aggregate for the six months ended 30 June 2021 to RMB1,230 million for the corresponding period of 2022.

The above operating results were attributable to the breakthrough progress made by Best Food in the platform operation systems, including but not limited to the following:

- (a) In developing the franchise system, in the first half of 2022, Best Food focused on the development of a franchise management system and a franchise ecosystem, including improving the management policies, cultivating special business echelons, entering into strategic cooperation agreements with a number of large real estate chains, and establishing a financing platform for franchise partners. As at 30 June 2022, the Group’s franchised stores covered nearly 20 provinces and municipalities across the country, including single-store franchise partners and regional franchise partners. Among them, HHG has developed several regional franchise partners respectively in Hebei Province, Heilongjiang Province and Zhejiang Province in the past two years on the basis of its existing regional partners in Shanxi. Since the opening of its first store in August 2020, the regional franchise partner of the King of Clay Pot (煲仔皇) in Jiangsu has kept up the momentum during the Pandemic. As at 30 June 2022, 22 stores were opened in Jiangsu. At the same time, King of Clay Pot (煲仔皇) also set up franchise stores in Anhui, Zhejiang, Sichuan and Fujian respectively.

- (b) In developing the omni-channel operation system, relying on its independently-developed private domain operation system, Best Food achieved a substantial increase in the number of members, which, in the form of either stored value or loyalty points, increased from approximately 16.0 million at the beginning of the year to approximately 20.0 million. During the Pandemic, Best Food consolidated its internal professional Douyin operation team responsible for the operation of live broadcast and short video contents and the investment in online marketing channels. Meanwhile, each brand on the platform of the Group also made active efforts to expand online channels. Xinladao organized Douyin live broadcasts to sell coupons on a regular basis, and launched group meal business in April 2022. The provision of delivery service, undertaking working meal business, and the launch of community group purchase have established a stable customer base for HHG. Seesaw Coffee developed new retail business through multiple channels such as the community group purchase, Douyin, JD.com and Taobao, and became one of the leading coffee brands by sales on the Tmall platform.

Digital Empowerment

The Group has also made a breakthrough in the development and operation of the overall digital systems in the first half of 2022, including the independent development and launch of various digital systems with a lean-and-mean team.

The one-stop smart cashier system, the order-via-mobile-app system and the membership customer management system completed the integrated operation test and will be gradually promoted to various brands.

Further, the intelligent delivery system 1.0, integrating information from various delivery platforms, has been launched and well positioned for the subsequent intellectualization of delivery services, and the franchise management system 1.0 has also been launched in the period. In the future, it is expected to follow up franchise cooperation clues, improve management efficiency and smoothly serve franchise partners in an effective manner.

Investment Empowerment

In the first half of 2022, Best Food made an angel investment in two start-up brands, namely the hot pot-stewed food chain brand “Zhao Cai Feng Zhao” (招財鳳爪) and the Internet celebrity hotpot “Panda Hot Pot” (熊貓燙). For the existing invested brands, Best Food leverages the established capabilities of the platform to provide value-added services for brands, including optimizing strategies and modes, building Douyin IP to enhance overall potential, enabling the identification of franchise partners, financing counseling, and engaging with financial institutions.

In recent years, the increase in the valuation of associates has made significant contributions to the value enhancement of Best Food. However, according to Hong Kong Accounting Standard 28 “Investments in Associates and Joint Ventures”, the investments in associates are accounted for using the equity method (instead of the fair value approach). Therefore, the contribution of the abovementioned increase in valuation was not reflected in the statement of comprehensive income of Best Food. In 2021, Best Food realized part of the profit from the disposal of a small amount of investment in associates, proving the considerable results of investment empowerment. In 2022, Best Food will continue to hold the equity interest in associates, and remain confident in the long-term growth of its enterprise value.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group decreased by 27.6% from RMB370.2 million for the six months ended 30 June 2021 to RMB268.1 million for the corresponding period of 2022, among which revenue from restaurant operations decreased by 36.5% from RMB250.4 million for the six months ended 30 June 2021 to RMB159.0 million for the corresponding period of 2022, and revenue from delivery business decreased by 9.6% from RMB98.6 million for the six months ended 30 June 2021 to RMB89.1 million for the corresponding period of 2022, which was mainly attributable to the decline in sales as some restaurants were closed or unable to provide dine-in services due to the impact of the Pandemic during the reporting period.

Raw material used and changes in inventories of finished goods

Raw material used and changes in inventories of finished goods decreased by 25.9% from RMB149.3 million for the six months ended 30 June 2021 to RMB110.6 million for the corresponding period of 2022, which was mainly attributable to the disrupted restaurant operations caused by the Pandemic. Raw material used and changes in inventories of finished goods as a percentage of revenue were 40.3% for the six months ended 30 June 2021 and 41.3% for the six months ended 30 June 2022, respectively.

Online platform service charges and delivery fees

Online platform service charges and delivery fees decreased by 17.1% from RMB21.1 million for the six months ended 30 June 2021 to RMB17.5 million for the corresponding period of 2022, which was mainly attributable to the decline in sales as some restaurants were closed due to the impact of the Pandemic.

Employee benefit expense

Employee benefit expense decreased by 22.5% from RMB110.5 million for the six months ended 30 June 2021 to RMB85.6 million for the corresponding period of 2022, which was mainly attributable to the decrease in staff working hours during the restaurants' suspension of operations. Employee benefit expense as a percentage of revenue increased from 29.8% for the six months ended 30 June 2021 to 31.9% for the corresponding period of 2022, which was mainly attributable to the decrease in revenue during the reporting period.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 8.0% from RMB52.5 million for the six months ended 30 June 2021 to RMB48.3 million for the corresponding period of 2022. Depreciation of right-of-use assets as a percentage of revenue increased from 14.2% for the six months ended 30 June 2021 to 18.0% for the corresponding period of 2022, which was mainly due to the decrease in revenue during the reporting period.

Depreciation and amortisation of other assets

Depreciation and amortisation of other assets decreased by 34.8% from RMB20.7 million for the six months ended 30 June 2021 to RMB13.5 million for the corresponding period of 2022. Depreciation and amortisation of other assets as a percentage of revenue decreased from 5.6% for the six months ended 30 June 2021 to 5.0% for the corresponding period of 2022, which was mainly due to the closure of certain underperforming restaurants and disposal of underlying assets with lower revenue contribution during the second half of 2021 and at the beginning of 2022.

Property rentals and other related expenses

Property rentals and other related expenses decreased by 34.5% from RMB13.9 million for the six months ended 30 June 2021 to RMB9.1 million for the corresponding period of 2022, which was mainly attributable to the COVID-19-related rent concessions received and the decrease in property management fees as a result of the closure of some restaurants during the reporting period. Property rentals and other related expenses as a percentage of revenue decreased from 3.8% for the six months ended 30 June 2021 to 3.4% for the corresponding period of 2022.

Other expenses

Other expenses decreased by 25.5% from RMB31.8 million for the six months ended 30 June 2021 to RMB23.7 million for the corresponding period of 2022, which was attributable to the decreased operating activities as affected by the Pandemic control and mainly reflected (i) the decrease in advertising costs of RMB4.0 million; and (ii) the decrease in business development expenses of RMB3.2 million. Other expenses as a percentage of revenue increased from 8.6% for the six months ended 30 June 2021 to 8.8% for the corresponding period of 2022.

Finance expenses

For the six months ended 30 June 2021 and 2022, finance expenses were both RMB23.0 million.

Income tax credit/(expenses)

Income tax expenses amounted to RMB2.3 million for the six months ended 30 June 2021, while the income tax credit amounted to RMB0.2 million for the corresponding period of 2022; such change was mainly attributable to the loss-making position of the Group for the six months ended 30 June 2022, whereas withholding tax of RMB2.7 million was payable in relation to the disposal of equity interests in associates in the first half of 2021.

Loss/profit for the period

The Group recorded loss for the period for the six months ended 30 June 2022 of approximately RMB107.3 million, as compared to profit of RMB1.2 million for the six months ended 30 June 2021, which was mainly attributable to the decrease in restaurant sales affected by the Pandemic during the reporting period, while those restaurants still incurred certain fixed operating costs.

Non-GAAP Financial Measure

Adjusted loss for the period

The adjusted loss for the period is calculated as the loss for the period excluding interest on convertible bonds and gain or loss on fair value change on derivative financial instrument. The adjusted loss/profit figures are provided to facilitate the evaluation of the Group's business performance by excluding the impact of certain non-operating, unusual and/or non-recurring items. The table below sets forth the reconciliation of loss for the period to adjusted loss for the period:

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| (Loss)/profit for the period | (107,291) | 1,153 |
| Interest on convertible bonds | 15,904 | 16,010 |
| Loss/(gain) on fair value change on derivative financial instrument | 23,663 | (1,781) |
| Adjusted (loss)/profit for the period | <u>(67,724)</u> | <u>15,382</u> |

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

EBITDA is calculated based on (loss)/profit for the period, excluding the sum of income tax (credit)/expenses, finance income, finance expenses, depreciation of right-of-use assets and depreciation and amortisation of other assets. EBITDA is also widely used by investors to measure the results of operation of comparable companies.

Reconciliations of EBITDA and the loss/profit for the period are as follows:

| | Six months ended | |
|--|-------------------------|----------------------|
| | 30 June | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Reconciliation of (loss)/profit for the period to EBITDA: | | |
| (Loss)/profit for the period | (107,291) | 1,153 |
| Income tax (credit)/expenses | (193) | 2,325 |
| Finance income | (142) | (92) |
| Finance expenses (including amortisation of discount on lease liabilities) | 23,125 | 23,078 |
| Depreciation of right-of-use assets | 48,277 | 52,471 |
| Depreciation and amortisation of other assets | 13,494 | 20,708 |
| EBITDA | <u>(22,730)</u> | <u>99,643</u> |

The Group uses adjusted loss and EBITDA as additional financial measures to supplement the consolidated financial statements which are presented in accordance with HKFRS and to evaluate the financial performance of the Group.

Such unaudited non-GAAP financial measures have 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. Shareholders of the Company should note that while the EBITDA has been derived based on traditional definition, these non-GAAP financial measures may still be defined differently from similar terms used by other companies. The Group's presentation of these non-GAAP financial measures should not be construed as an inference that the Group's future results will be unaffected by these items.

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 2022, the Group recognized right-of-use assets with an amount of RMB233.7 million.

Inventories

Inventories mainly represented the food ingredients used in restaurant operation. Inventories decreased from RMB35.2 million as of 31 December 2021 to RMB30.3 million as of 30 June 2022. For the year ended 31 December 2021 and for the six months ended 30 June 2022, 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, increased from 43 days to 54 days, which was mainly due to the impact of the Pandemic on restaurant operations, and thereby slowed down the inventory turnover speed.

Trade and other receivables

Trade and other receivables decreased by 3.3% from RMB100.2 million as of 31 December 2021 to RMB96.9 million as of 30 June 2022, among which, other receivables decreased by 2.8% from RMB84.7 million as of 31 December 2021 to RMB82.3 million as of 30 June 2022, which was mainly attributable to lease deposits recovered from the expiry of leases for some stores.

Trade and other payables

Trade and other payables decreased from RMB178.8 million as of 31 December 2021 to RMB175.5 million as of 30 June 2022. Among which, trade payables decreased from RMB59.2 million as of 31 December 2021 to RMB57.9 million as of 30 June 2022, and the turnover days increased from 82 days for the year ended 31 December 2021 to 96 days for the six months ended 30 June 2022, which was attributable to the decrease in the cost of materials caused by the decline in sales during the reporting period.

Borrowings

As of 30 June 2022, the Group had bank borrowings of RMB15.4 million (as of 31 December 2021: RMB15.0 million).

Convertible bonds

As of 30 June 2022, convertible bonds and related interests of the Group totalled RMB543.5 million, representing an increase of RMB41.4 million as compared to RMB502.1 million as of 31 December 2021, 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 2022, the total lease liabilities amounted to RMB243.7 million, representing a decrease of 14.2% as compared to RMB284.1 million as of 31 December 2021, which was mainly attributable to the lease payment for certain existing leases during the reporting period.

PROSPECTS

Despite the fluctuations in the scale of the catering industry as impacted by the recurring Pandemic since the beginning of 2020, the Directors of the Company believe that the upward trend of the overall scale of the catering industry has not changed and there is still huge space for the development of the catering industry in China. The Company noticed that chains and brands have been a prominent trend in respect of market structure. In terms of business model, the improving proportion of sales on delivery platforms, coupled with the increasing importance of group meals, Douyin live broadcast, new retail and other channels, presents opportunities for omni-channel innovation and breakthroughs in the catering industry.

Best Food will continue to work hard on its established strategies, including:

- (1) focusing on the development of franchise business;
- (2) further promoting the development of digital systems;
- (3) actively improving operational capabilities and efficiency; and
- (4) making full use of investment empowerment to assist the invested brands to enhance enterprise value.

The journey is long and arduous, but we will get through and usher in a bright future with determination and perseverance. It is believed that Best Food will work towards the goal of establishing a “new” multi-brand food and beverage platform to improve its performance and create value for its shareholders.

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 2022 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 2022

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2022 RMB'000 (unaudited) | 2021 RMB'000 (unaudited) |
| Revenue | 3 | 268,104 | 370,225 |
| Other income | 4 | 6,622 | 8,653 |
| Raw material used and changes in inventories of finished goods | | (110,625) | (149,316) |
| Online platform service charges and delivery fees | | (17,495) | (21,105) |
| Employee benefit expense | | (85,605) | (110,479) |
| Depreciation of right-of-use assets | | (48,277) | (52,471) |
| Depreciation and amortisation of other assets | | (13,494) | (20,708) |
| Utility expenses | | (10,110) | (13,481) |
| Property rentals and other related expenses | | (9,073) | (13,929) |
| Other expenses | | (23,700) | (31,839) |
| Provision for expected credit loss allowance for financial assets, net | | (157) | (23) |
| Other (losses)/gains, net | | (2,932) | 191 |
| Finance expenses — net | 6 | (22,983) | (22,986) |
| (Loss)/gain on fair value change on derivative financial instrument | | (23,663) | 1,781 |
| Gain on partial disposal and dilution of investments in associates | 5 | — | 56,537 |
| Share of (loss)/profit of associates | | (14,096) | 2,428 |
| (Loss)/profit before taxation | | (107,484) | 3,478 |
| Income tax credit/(expense) | 7 | 193 | (2,325) |
| (Loss)/profit for the period | | (107,291) | 1,153 |

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|---------------------|
| | | 2022 | 2021 |
| | <i>Notes</i> | RMB'000 | RMB'000 |
| | | (unaudited) | (unaudited) |
| (Loss)/profit for the period attributable to: | | | |
| Equity holders of the Company | | (100,877) | 5,242 |
| Non-controlling interests | | <u>(6,414)</u> | <u>(4,089)</u> |
| | | <u>(107,291)</u> | <u>1,153</u> |
| Other comprehensive (loss)/income | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | <u>(10,426)</u> | <u>381</u> |
| Other comprehensive (loss)/income for the period | | <u>(10,426)</u> | <u>381</u> |
| Total comprehensive (loss)/income for the period | | <u>(117,717)</u> | <u>1,534</u> |
| Total comprehensive (loss)/income for the period attributable to: | | | |
| — Equity holders of the Company | | (111,303) | 5,623 |
| — Non-controlling interests | | <u>(6,414)</u> | <u>(4,089)</u> |
| | | <u>(117,717)</u> | <u>1,534</u> |
| Earnings/(loss) per share attributable to equity holders of the Company: | | | |
| (Loss)/earnings per share (RMB cents) — Basic | <i>10</i> | <u>(6.39)</u> | <u>0.33</u> |
| (Loss)/earnings per share (RMB cents) — Diluted | <i>10</i> | <u>(6.39)</u> | <u>0.33</u> |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30 June 2022 <i>RMB'000</i> (unaudited) | As at 31 December 2021 <i>RMB'000</i> (audited) |
|--|--------------|--|---|
| | <i>Notes</i> | | |
| Non-Current Assets | | | |
| Property, plant and equipment | | 90,318 | 99,195 |
| Right-of-use assets | | 233,727 | 274,017 |
| Investments in associates | | 242,270 | 240,538 |
| Goodwill | | 45,495 | 45,495 |
| Intangible assets | | 473,645 | 474,505 |
| Derivative financial instruments | <i>11</i> | — | 22,543 |
| Deferred tax assets | | 46,046 | 45,850 |
| Trade and other receivables | <i>12</i> | 23,401 | 24,255 |
| Financial assets at fair value through other comprehensive income | | 2,000 | 2,000 |
| Other non-current assets | | 1,284 | 951 |
| | | <u>1,158,186</u> | <u>1,229,349</u> |
| Current Assets | | | |
| Inventories | | 30,262 | 35,235 |
| Trade and other receivables | <i>12</i> | 73,474 | 75,974 |
| Other current assets | | 35,536 | 58,389 |
| Financial assets at fair value through profit or loss | | 75,834 | 57,817 |
| Cash and cash equivalents | | 28,086 | 62,571 |
| Restricted cash | | — | 961 |
| | | <u>243,192</u> | <u>290,947</u> |
| Total Assets | | <u><u>1,401,378</u></u> | <u><u>1,520,296</u></u> |

| | | As at 30 June 2022 <i>RMB'000</i> (unaudited) | As at 31 December 2021 <i>RMB'000</i> (audited) |
|--|--------------|--|---|
| | <i>Notes</i> | | |
| Current Liabilities | | | |
| Trade and other payables | 13 | 175,548 | 178,842 |
| Contract liabilities | | 63,228 | 63,874 |
| Lease liabilities | | 83,877 | 95,848 |
| Borrowings | 14 | 15,420 | 15,000 |
| Tax payable | | 5,204 | 5,582 |
| Convertible bonds-interest payable | 15 | <u>62,773</u> | <u>59,801</u> |
| | | <u>406,050</u> | <u>418,947</u> |
| Non-Current Liabilities | | | |
| Convertible bonds | 15 | 480,677 | 442,267 |
| Lease liabilities | | 159,865 | 188,270 |
| Deferred tax liabilities | | 114,021 | 114,021 |
| Deferred government grants | | <u>1,603</u> | <u>1,380</u> |
| | | <u>756,166</u> | <u>745,938</u> |
| Total Liabilities | | <u><u>1,162,216</u></u> | <u><u>1,164,885</u></u> |
| Capital and Reserves | | | |
| Share capital | | 133,023 | 133,023 |
| Reserves | | <u>42,448</u> | <u>153,971</u> |
| Equity attributable to equity holders of the Company | | 175,471 | 286,994 |
| Non-controlling interests | | <u>63,691</u> | <u>68,417</u> |
| Total Equity | | <u><u>239,162</u></u> | <u><u>355,411</u></u> |
| Total Liabilities and Equity | | <u><u>1,401,378</u></u> | <u><u>1,520,296</u></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**”).

As of 30 June 2022, the Group’s current liabilities exceeded its current assets by RMB162,858,000. 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 2022. Therefore, the financial statements have 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 other comprehensive income, 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 2021, 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.

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 2022 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 2022 and 2021, 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 | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Restaurant operation | 158,979 | 250,421 |
| Delivery business | 89,113 | 98,621 |
| Sale of food ingredients | <u>20,012</u> | <u>21,183</u> |
| Total | <u>268,104</u> | <u>370,225</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.

The Group has a large number of customers. For the six months ended 30 June 2022 and 2021, 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 | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Management service income (a) | — | 2,830 |
| Franchise income | 2,978 | 2,412 |
| Government grants | 1,926 | 1,830 |
| Investment income on wealth management products | 947 | 888 |
| Interest income on loans | 144 | 204 |
| Others | <u>627</u> | <u>489</u> |
| | <u>6,622</u> | <u>8,653</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

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Net gains on partial disposal of investments in associates | — | 46,423 |
| Net gains on dilution of investments in associates | — | 10,114 |
| | <u>—</u> | <u>10,114</u> |
| Total | <u>—</u> | <u>56,537</u> |

6. FINANCE INCOME AND EXPENSES

| | Unaudited | |
|---------------------------------------|--------------------------|-----------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Finance income | | |
| Interest income on bank deposits | <u>142</u> | <u>92</u> |
| Finance expenses | | |
| Interest on convertible bonds | (15,904) | (16,010) |
| Interest on lease liabilities | (6,719) | (6,833) |
| Interest on bank borrowings | (214) | (196) |
| Interest on loan from a related party | (53) | — |
| Others | <u>(235)</u> | <u>(39)</u> |
| | <u>(23,125)</u> | <u>(23,078)</u> |
| Finance expenses, net | <u>(22,983)</u> | <u>(22,986)</u> |

7. INCOME TAX (CREDIT)/EXPENSE

| | Unaudited | |
|--|--------------------------|--------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Current income tax | | |
| Hong Kong profits tax | — | — |
| Withholding income tax in relation to gains on partial disposal of investments in associates | — | 2,707 |
| PRC enterprise income tax (“EIT”) | — | — |
| | <u>—</u> | <u>—</u> |
| | — | 2,707 |
| Deferred tax | <u>(193)</u> | <u>(382)</u> |
| | <u>(193)</u> | <u>2,325</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%. (2021: 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.

Withholding income tax

During the period ended 30 June 2021, Wonderful Dawn Holdings Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong, disposed certain interests in associates. The taxable income on such disposals (being the difference of the consideration and the proportion of investment costs disposed of) is subject to withholding tax at the rate of 10%.

8. LOSS/PROFIT FOR THE PERIOD

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

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | Unaudited | Unaudited |
| Depreciation of right-of-use assets | 48,277 | 52,471 |
| Depreciation of property, plant and equipment | 12,757 | 20,025 |
| Amortization of intangible assets | 737 | 683 |
| | <u>61,771</u> | <u>73,179</u> |
| Total depreciation and amortization | | |
| Property rentals | | |
| — office premises (fixed payments) | 473 | 818 |
| — restaurants | | |
| — short-term rental payments | 586 | 1,985 |
| — variable lease payments | 812 | 912 |
| — COVID-19-related rent concessions | (1,474) | (362) |
| Property management fee | 8,676 | 10,576 |
| | <u>9,073</u> | <u>13,929</u> |
| Total property rentals and other related expenses | | |
| Auditor's remuneration | | |
| — Audit service | 1,000 | 1,000 |
| — Non-audit services | — | — |
| | <u>—</u> | <u>—</u> |

9. DIVIDENDS

The board of directors of the Company has determined not to declare interim dividend for the six months ended 30 June 2022 (2021: nil).

10. (LOSS)/EARNINGS 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 RMB100,877,000 (2021: profit of RMB5,242,000) and the weighted average number of ordinary shares in issue of 1,578,664,000 (2021: 1,578,664,000) shares during the period.

Diluted (loss)/earnings 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 2022 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease loss per share. Diluted earnings per share is not presented because there were no dilutive potential ordinary shares for the six months ended 30 June 2021.

11. DERIVATIVE FINANCIAL INSTRUMENTS

| | Unaudited | Audited |
|---------------------|-------------------|-------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| As at 1 January | 22,543 | 72,226 |
| Fair value change | (23,663) | (47,375) |
| Exchange difference | 1,120 | (2,308) |
| | <u> </u> | <u> </u> |
| As at 30 June | <u> </u> | <u>22,543</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. 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.

12. TRADE AND OTHER RECEIVABLES

| | Unaudited | Audited |
|--|------------------|----------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Trade receivables | 14,922 | 15,929 |
| Other receivables | 88,709 | 90,899 |
| | 103,631 | 106,828 |
| Less: provision for expected credit loss allowance for trade receivables | (406) | (406) |
| provision for expected credit loss allowance for other receivables | (6,350) | (6,193) |
| Trade and other receivables — net | 96,875 | 100,229 |
| Less: Non-current portion | (23,401) | (24,255) |
| Trade and other receivables — current portion | 73,474 | 75,974 |

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

| | Unaudited | Audited |
|--------------------|------------------|----------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Within 6 months | 12,193 | 12,237 |
| 6 months to 1 year | 2,729 | 3,692 |
| | 14,922 | 15,929 |

13. TRADE AND OTHER PAYABLES

| | Unaudited | Audited |
|-----------------------------|-----------------------|-----------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Trade payables | 57,905 | 59,166 |
| Other payables and accruals | <u>117,643</u> | <u>119,676</u> |
| | <u>175,548</u> | <u>178,842</u> |

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

| | Unaudited | Audited |
|-----------------|----------------------|----------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Within 6 months | 55,750 | 57,473 |
| Over 6 months | <u>2,155</u> | <u>1,693</u> |
| | <u>57,905</u> | <u>59,166</u> |

14. BORROWINGS

| | Unaudited | Audited |
|-------------------------|----------------------|----------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Current | | |
| <i>Secured</i> | | |
| Bank borrowings | 5,420 | 5,000 |
| <i>Unsecured</i> | | |
| Bank borrowings | <u>10,000</u> | <u>10,000</u> |
| Total borrowings | <u>15,420</u> | <u>15,000</u> |

(a) Maturity of borrowings

| | Unaudited As at 30 June 2022 RMB'000 | Audited As at 31 December 2021 RMB'000 |
|------------------|--|--|
| 6 months or less | 1,950 | 3,050 |
| 6–12 months | <u>13,470</u> | <u>11,950</u> |
| | <u>15,420</u> | <u>15,000</u> |

(b) Weighted average annual interest rates

| | Unaudited As at 30 June 2022 RMB'000 | Audited As at 31 December 2021 RMB'000 |
|-----------------|--|--|
| Bank borrowings | 4.10% | 4.35% |

15. CONVERTIBLE BONDS

| | Unaudited As at 30 June 2022 RMB'000 | Audited As at 31 December 2021 RMB'000 |
|--------------------------------------|--|--|
| Current | | |
| Convertible bonds — interest payable | <u>62,773</u> | <u>59,801</u> |
| Non-current | | |
| Convertible bonds | <u>480,677</u> | <u>442,267</u> |

As at 30 June 2022, current portion of the convertible bonds amounted to HK\$73,402,000 (equivalent to approximately RMB62,773,000), 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 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 2021 and 2022 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 2021 (Unaudited) | | | |
| As at 1 January 2021 | 485,425 | 104,294 | 589,719 |
| Interest expenses (<i>Note</i>) | 16,010 | — | 16,010 |
| Exchange difference | (5,511) | — | (5,511) |
| As at 30 June 2021 | 495,924 | 104,294 | 600,218 |
| 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 |

Note: The interest expense of RMB15,904,000 (2021: RMB16,010,000) was calculated using the effective interest method.

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 2022 (2021: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2022 was RMB239.2 million (31 December 2021: RMB355.4 million). As at 30 June 2022, the Group had current assets of RMB243.2 million (31 December 2021: RMB290.9 million) and current liabilities of RMB406.1 million (31 December 2021: RMB418.9 million). The current ratio was 0.60 as at 30 June 2022 as compared to 0.69 as at 31 December 2021.

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 2022, the Group had outstanding bank borrowings of RMB15.4 million (31 December 2021: 15.0 million). As at 30 June 2022, the Group maintained bank balances and cash of RMB28.1 million (31 December 2021: RMB62.6 million). Adding back the amount recorded as financial assets at fair value through profit or loss held as a bank short-term wealth management product, total balance amounted to RMB103.9 million (31 December 2021: RMB120.4 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 2022 (31 December 2021: 0.13).

As at 30 June 2022, the Group had outstanding convertible bonds of RMB543.5 million (31 December 2021: RMB502.1 million). Please refer to Note 15 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 2022. 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 2022, 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 2021: 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 2022 and up to the date of this announcement.

SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2022, the Company had 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 2022.

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 2022, save for the Group's buildings with net book value of RMB22.2 million (31 December 2021: RMB22.7 million) that 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 2022, the Group did not have any contingent liabilities (31 December 2021: 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 2022 (31 December 2021: nil).

HUMAN RESOURCES

As at 30 June 2022, the Group had a workforce of about 2,411 people (31 December 2021: about 2,793 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 2022, 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 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**”) throughout the six months ended 30 June 2022.

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 2022.

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'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 and the Company in due course.

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

Hong Kong, 30 August 2022

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*