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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: 1488)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue	752,959	650,691
Adjusted loss for the year (<i>Note</i>)	(5,242)	(145,044)
Adjusted items		
Interest on convertible bonds	(32,765)	(35,214)
(Loss)/gain on fair value change on derivative financial instrument	(47,375)	29,262
Impairment of goodwill and other intangible assets	(566,455)	—
Loss for the year	(651,837)	(150,996)
Loss per share attributable to equity holders of the Company:		
Loss per share (RMB cents) — basic and diluted	(40.52)	(8.93)

Note: The adjusted loss for the year is a non-GAAP financial measure and is calculated as the loss for the year excluding interest on convertible bonds of RMB32.8 million (2020: RMB35.2 million), loss on fair value change on derivative financial instrument of RMB47.4million (2020: gain of RMB29.3 million) and impairment of goodwill and other intangible assets of RMB566.5 million (2020: nil). 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

BUSINESS PERFORMANCE REVIEW

In 2021, despite that the COVID-19 pandemic was mitigated throughout China, regional slight resurgences remained in various areas continuously. Best Food Holding Company Limited (the “**Company**” or “**Best Food**”) and its subsidiaries (collectively the “**Group**”) was adversely affected by the pandemic in different regions. Nonetheless, by adhering to the designated strategic direction, Best Food strived to develop itself into a “new” digital-based and multi-brand food and beverage platform company. It placed emphasis on the upgrade in three major strengths such as digital, operational and investment empowerment and achieved solid progress.

Operational Empowerment

As at 31 December 2021, the number of direct-owned and franchised stores under the brands of Best Food exceeded 700 in total, representing a significant growth as compared with the previous year (as at 31 December 2020: approximately 500). Among them, 500 were direct-owned stores and 216 were franchised stores.

Regarding the development of direct-owned stores, Best Food has undergone structural adjustment and closure of certain poorly located or underperforming stores on one hand, and optimized the store layout to newly-opened stores with shorter period of return and less investment costs on the other hand.

The business strategy of franchising focused on increasing the efficiency of channel development and developing the franchise supporting system: embarking on the regional franchise partnership with franchisees possessing management experience and operational strengths in order to promote the brands of all members of Best Food to various provinces throughout China by leveraging the location advantages of the franchisees. For instance, the franchise partner in Lanzhou region which possessed well-established management experience has optimized the franchise store layout under the Xinladao brand, launched the new store layout providing new products such as the signature boiled fish pot and fish with pickled cabbage, achieving satisfactory growth of single-store sales. Besides, the focused tasks of franchise business included the integrated management of direct-owned and franchised stores, pushing forward the development of the franchisee service system and thus fostering good reputation in a bid to expand the scale of franchise business. For example, the operation supporting team for HHG has formulated a consistent standard of product, service and user experience for direct-owned and franchised stores, established the rapid feedback mechanism, promoted the modularized training and inspection systems, achieving new market expansion in regions such as Harbin and Jinhua, Zhejiang. In addition, given the highly standardized products and broad customer base of Yujian Xiaomian, the franchise regions have expanded to areas including Fujian and employees were attracted to participate in the franchise business as entrepreneurs. Clay Pot King was renamed as King of Clay Pot (煲仔皇) with improved and adapted flavour to cater for Southern China market, upon which it has achieved rapid expansion of franchised stores in regions including, among others, Jiangsu and Anhui with 13 newly-opened stores. West Master enriched its product lines, increased brand popularity by means of new media promotion and made breakthrough in expanding the franchise business into various regions.

Digital Empowerment

In 2021, various brands of Best Food have achieved phased results in terms of general development and operation of their digital systems.

Its major brands launched WeChat and Alipay Mini Programs to further enhance service efficiency and customer experience. Coupled with 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 16.0 million at end of the year. Internally, Best Food also promoted its own integrated member data platform to provide better services to satisfy the diverse demands of customers.

Since the middle of 2021, Best Food has established a professional digitalization team to develop a digitalized application platform linking all brands within the Group. During 2021, the Group developed the one-stop smart cashier system and order-via-mobile-app system successfully, accomplished the upgrade of the membership customer management system and developed the data operational capabilities, initially possessing the ability in exploring and analyzing the integrated online and offline customer demands.

In 2022, Best Food will continue to put in efforts and resources in the refined management such as customer-segmentation marketing and restaurant operation by categories. Meanwhile, Best Food also commenced development of the intelligent takeaway system, franchise management system and business data analysis system so as to enhance management and operational efficiency comprehensively.

Investment Empowerment

Investing in various segments of the catering industry over the years, Best Food has established the multi-category and systematic investment layout in the industry. Among them, most of the joint-stock brands saw significant growth in business volumes as compared to that at initial investment. King of Clay Pot (煲仔皇) (formerly known as Clay Pot King) made its business presence successfully and expanded its number of restaurants rapidly in Eastern China region, the result of which facilitated its receipt of two consecutive rounds of investment from investors during 2021. Yujian Xiaomian received two consecutive rounds of investment from a fund under Shenzhen Country Garden Venture Capital Co., Ltd. in 2021, as a result of which its valuation as at the date of the second round of investment has nearly tripled as compared with that of the first round. Amidst the hardship in obtaining finance for the catering sector during the second half of 2021, Seesaw Coffee received a total of investment exceeding RMB100 million from multiple investors respectively, as a result of which its valuation has doubled within the half year.

The increase in the valuation of the joint-stock companies made significant contribution to the value enhancement of Best Food. However, according to Hong Kong Accounting Standard 28 “Investment in associates and joint ventures”, the investments in associates were accounted for 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 comprehensive income of Best Food. During 2021, Best Food has realised part of the gains through the disposal of a small portion of investments in certain associates, which demonstrated the considerable result of investment empowerment.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased by 15.7% from RMB650.7 million for the year ended 31 December 2020 to RMB753.0 million for the corresponding period of 2021, among which revenue from restaurant operations increased by 11.6% from RMB448.8 million for the year ended 31 December 2020 to RMB500.9 million for the corresponding period of 2021, which was mainly attributable to the mitigating of COVID-19 pandemic in 2021 and the recovery of restaurant operations in 2021. Revenue from delivery business increased by 20.7% from RMB170.8 million for the year ended 31 December 2020 to RMB206.1 million for the corresponding period of 2021, which was mainly attributable to the increase in the number of delivery orders during the year ended 31 December 2021.

Raw material used and changes in inventories of finished goods

Raw material used and changes in inventories of finished goods increased by 15.9% from RMB248.4 million for the year ended 31 December 2020 to RMB288.0 million for the corresponding period of 2021, which was mainly attributable to the recovery of restaurant operations in 2021. Raw material used and changes in inventories of finished goods as a percentage of revenue were 38.2% for the year ended 31 December 2020 and 38.2% for the corresponding period of 2021, respectively.

Online platform service charges and delivery fees

Online platform service charges and delivery fees increased by 28.4% from RMB28.9 million for the year ended 31 December 2020 to RMB37.1 million for the corresponding period of 2021, which was mainly attributable to the operation recovered during the reporting period. Online platform service charges and delivery fees as a percentage of revenue from delivery business increased from 16.9% for the year ended 31 December 2020 to 18.0% for the year ended 31 December 2021, which was mainly contributed by the increase of service charge rate by online platform during the reporting period.

Employee benefit expense

Employee benefit expense increased by 8.8% from RMB200.2 million for the year ended 31 December 2020 to RMB217.9 million for the corresponding period of 2021, which was mainly attributable to the increase in staff's working hours due to the resumption of operation in 2021. Employee benefit expense as a percentage of revenue decreased from 30.8% for the year ended 31 December 2020 to 28.9% 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 16.0% from RMB123.1 million for the year ended 31 December 2020 to RMB103.4 million for the corresponding period of 2021. Depreciation of right-of-use-assets as a percentage of revenue decreased from 18.9% for the year ended 31 December 2020 to 13.7% for the corresponding period of 2021, which was mainly due to the closure of certain under performing restaurants with lower revenue contribution at the beginning of 2021.

Depreciation and amortization of other assets

Depreciation and amortisation of other assets decreased by 6.6% from RMB44.1 million for the year ended 31 December 2020 to RMB41.2 million for the corresponding period of 2021. Depreciation and amortisation of other assets as a percentage of revenue decreased from 6.8% for the year ended 31 December 2020 to 5.5% for the corresponding period of 2021, which was mainly due to the closure of certain under performing restaurants and disposal of underlying assets with lower revenue contribution at the beginning of 2021.

Property rentals and other related expenses

Property rentals and other related expenses increased by 236.5% from RMB9.6 million for the year ended 31 December 2020 to RMB32.3 million for the corresponding period of 2021, property rentals and other related expenses as a percentage of revenue increased from 1.5% for the year ended 31 December 2020 to 4.3% for the corresponding period of 2021, which was mainly due to the COVID-19-Related rent concessions received in 2020.

Other expenses

Other expenses increase by 24.1% from RMB77.2 million for the year ended 31 December 2020 to RMB95.8 million for the corresponding period of 2021, which was attributable to resumption of operation and mainly reflected (i) the increase in advertising costs of RMB2.1 million; (ii) the increase in daily maintenance expenses of RMB5.6 million; and (iii) the increase in impairment of property, plant and equipment of RMB5.2 million. Other expenses as a percentage of revenue increase from 11.9% for the year ended 31 December 2020 to 12.7% for the corresponding period of 2021.

Gain on partial disposal and dilution of investments in associates

Gain on partial disposal and dilution of investments in associates amounted to RMB82.0 million for the year ended 31 December 2021, which was mainly attributable to the increase in the Group's share of 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 portion of equity interests in certain associates by the Group.

Finance expenses — net

Finance expenses — net (which includes finance income, finance expenses and interest on convertible bonds) decreased by 8.2% from RMB52.3 million for the year ended 31 December 2020 to RMB48.0 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 credit

Income tax credit amounted to RMB9.7 million for the year ended 31 December 2020, while the income tax credit amounted to RMB13.8 million for the corresponding period of 2021, which was mainly attributable to the increase in losses.

Loss for the year attributable to equity holders of the Company

The Group recorded a loss for the year attributable to equity holders of the Company of approximately RMB639.6 million, as compared to loss attributable to equity holders of the Company of RMB140.9 million for the year ended 31 December 2020, which was mainly attributable to the recognized impairment loss of goodwill and loss on fair value change on derivative financial instrument.

Non-GAAP Financial Measure

Adjusted loss for the year

The adjusted loss for the year is calculated as the loss for the year excluding interest on convertible bonds, gain or loss on fair value change on derivative financial instrument and impairment of goodwill and other intangible assets. The table below sets forth the reconciliation of loss for the year to adjusted loss for the year:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss for the year	(651,837)	(150,996)
Interest on convertible bonds	32,765	35,214
Loss/(gain) on fair value change on derivative financial instrument	47,375	(29,262)
Impairment of goodwill and other intangible assets	<u>566,455</u>	<u>—</u>
Adjusted loss for the year	<u>(5,242)</u>	<u>(145,044)</u>

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, unusual and/or 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.

Right-of-use-assets

Under HKFRS 16 Lease (“**HKFRS 16**”), the Group recognized right-of-use assets with respect to its property leases. The right-of-use assets are depreciated over the leasing term or the useful life of the underlying asset, whichever the shorter. As of 31 December 2021, the Group recognized right-of-use assets with an amount of RMB274.0 million.

Investment in associates

As of 31 December 2021, the total investment in associates amounted to RMB240.5 million, representing an increase of 9.3% as compared to RMB220.0 million for the corresponding period of 2020, which was mainly attributable to the additional investments in existing associates and the addition of a new associate with an aggregate amount of approximately RMB18.6 million made during the year ended 31 December 2021. These associates are principally engaged in operation of restaurants or food ingredients processing business.

Derivative financial instrument

Derivative financial instrument decreased by 68.8% from RMB72.2 million as of 31 December 2020 to RMB22.5 million as of 31 December 2021, which was attributable to loss on fair value change of RMB47.4 million. For further details, please refer to Note 11 to the consolidated financial results of the Company in this announcement for further details.

Goodwill

Goodwill decreased by 92.2% from RMB580.9 million as of 31 December 2020 to RMB45.5 million as of 31 December 2021, which was attributable to the recognized impairment loss of goodwill for the year ended 31 December 2021 of RMB535.4 million (2020: none). For further details, please refer to Note 10 to the consolidated financial results of the Company in this announcement for further details.

Trade and other receivables

Trade and other receivables increased by 46.3% from RMB68.5 million as of 31 December 2020 to RMB100.2 million as of 31 December 2021, among which, other receivables increased by 55.7% from RMB54.4 million as of 31 December 2020 to RMB84.7 million as of 31 December 2021, which was mainly attributable to the consideration receivable in relation to partial disposal of investment in an associate of RMB36.5 million (which was completed in December 2021).

Trade and other payables

Trade and other payables increased from RMB150.2 million as of 31 December 2020 to RMB178.8 million as of 31 December 2021, which was mainly attributable to the increase in deposit received in relation to partial disposal of investment in an associate of RMB20 million. Among which, trade payables decreased from RMB70.9 million as of 31 December 2020 to RMB59.2 million as of 31 December 2021, and the turnover days decreased from 89 days for the year ended 31 December 2020 to 82 days for the corresponding period of 2021.

Borrowings

As of 31 December 2021, the Group had borrowings of RMB15.0 million (as of 31 December 2020: RMB16.2 million).

Convertible bonds

As of 31 December 2021, convertible bonds and related interests totalled RMB502.1 million, representing an increase of RMB16.7 million as compared to RMB485.4 million as of 31 December 2020, which was mainly attributable to the interest incurred of RMB32.8 million and as partially offset by the fluctuation of exchange rate of RMB16.1 million during the year ended 31 December 2021.

Lease liabilities

As of 31 December 2021, the total lease liabilities amounted to RMB284.1 million, representing a decrease of 10.2% as compared to RMB316.2 million as of 31 December 2020, which was mainly attributable to the closure of certain underperforming restaurants during the year ended 31 December 2021.

FUTURE PROSPECTS

With the powerful transmission of the Omicron variant of COVID-19 emerging at the end of 2021, the pandemic control situation became critical in early 2022, posing more immense pressure on the catering sector than 2021. In response to the stress, the top priority task of the Group is to safeguard cash flow, followed by committing resources mainly to the direction of strategic development, including:

- (i) expediting the collaboration with capable regional franchisees for repetition and promotion of the optimized store layouts;
- (ii) continuing to allocate resources to expand and train up the digital development and operation teams; and
- (iii) making investment in the new and creative brands in the industry prudently.

Best Food is optimistic about the development trend of the catering industry in the long run. Following the mature operation of the digital platform, it is believed that Best Food will be able to give full play to its capability in operational and investment empowerment, implement the goal of developing itself into a “new” multi-brand food and beverage platform, boost the corporate business results and create value for shareholders.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2021 together with comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

		Year ended 31 December	
		2021	2020
	Note	RMB'000	Restated RMB'000
Revenue	3	752,959	650,691
Other income	4	18,085	12,730
Raw material used and changes in inventories of finished goods		(288,031)	(248,395)
Online platform service charges and delivery fees		(37,098)	(28,911)
Employee benefit expense		(217,944)	(200,243)
Depreciation of right-of-use assets		(103,406)	(123,101)
Depreciation and amortisation of other assets		(41,235)	(44,088)
Utility expenses		(29,664)	(25,671)
Property rentals and other related expenses		(32,281)	(9,644)
Other expenses		(95,842)	(77,230)
(Provision for)/reversal of expected credit loss allowance for financial assets, net		(6,518)	450
Impairment of goodwill and other intangible assets	10	(566,455)	—
Other losses, net	5	(3,656)	(5,030)
Finance income		144	221
Finance expenses		(15,338)	(17,332)
Interest on convertible bonds		(32,765)	(35,214)
(Loss)/gain on fair value change on derivative financial instrument	11	(47,375)	29,262
Gain on partial disposal and dilution of investments in associates	6	82,041	—
Share of profit/(loss) of associates		1,565	(14,559)
Impairment losses on investments in associates		(2,871)	(24,625)
Loss before taxation		(665,685)	(160,689)
Income tax credit	7	13,848	9,693
Loss for the year	8	(651,837)	(150,996)
Loss for the year attributable to:			
Equity holders of the Company		(639,639)	(140,938)
Non-controlling interest		(12,198)	(10,058)
		(651,837)	(150,996)

		Year ended 31 December	
		2021	2020
	<i>Note</i>	RMB'000	Restated RMB'000
Other comprehensive (loss)/income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		2,143	8,948
<i>Item that may not be reclassified subsequently to profit or loss:</i>			
Change in fair value of an equity investment at fair value through other comprehensive income		<u>(3,000)</u>	<u>—</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(857)</u>	<u>8,948</u>
Total comprehensive loss for the year		<u>(652,694)</u>	<u>(142,048)</u>
Total comprehensive loss for the year attributable to:			
— Equity holders of the Company		(640,496)	(131,990)
— Non-controlling interests		<u>(12,198)</u>	<u>(10,058)</u>
		<u>(652,694)</u>	<u>(142,048)</u>
Loss per share for loss attributable to equity holders of the Company:			
Loss per share (RMB cents) — basic	9	<u>(40.52)</u>	<u>(8.93)</u>
Loss per share (RMB cents) — diluted	9	<u>(40.52)</u>	<u>(8.93)</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2021

		As at 31 December	
		2021	2020
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		99,195	124,832
Right-of-use-assets		274,017	304,244
Investments in associates		240,538	220,026
Goodwill	10	45,495	580,931
Intangible assets	10	474,505	505,763
Derivative financial instrument	11	22,543	72,226
Deferred tax assets		45,850	33,560
Trade and other receivables	12	24,255	29,213
Financial assets at fair value through other comprehensive income		2,000	5,000
Other non-current assets		951	1,284
		<u>1,229,349</u>	<u>1,877,079</u>
Current assets			
Inventories		35,235	32,338
Trade and other receivables	12	75,974	39,320
Other current assets		58,389	57,302
Financial assets at fair value through profit or loss		57,817	27,931
Cash and cash equivalents		62,571	123,741
Restricted cash		961	—
		<u>290,947</u>	<u>280,632</u>
Total Assets		<u><u>1,520,296</u></u>	<u><u>2,157,711</u></u>

		As at 31 December	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
Current liabilities			
Trade and other payables	<i>13</i>	178,842	150,223
Contract liabilities		63,874	59,144
Lease liabilities		95,848	102,771
Borrowings	<i>14</i>	15,000	16,200
Tax payable		5,582	4,926
Convertible bonds — interest payable	<i>15</i>	59,801	45,837
		418,947	379,101
Non-current liabilities			
Convertible bonds	<i>15</i>	442,267	439,588
Lease liabilities		188,270	213,394
Deferred tax liabilities		114,021	121,790
Deferred government grants		1,380	3,167
		745,938	777,939
Total liabilities		1,164,885	1,157,040
Capital and reserves			
Share capital		133,023	133,023
Reserves		153,971	791,093
Equity attributable to equity holders of the Company		286,994	924,116
Non-controlling interests		68,417	76,555
Total equity		355,411	1,000,671
Total liabilities and equity		1,520,296	2,157,711

Notes:

1 GENERAL INFORMATION

Best Food Holding Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in the operation of chain restaurants.

The Company is a public limited company incorporated in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong (the “**Stock Exchange**”). Its parent company is Sonic Tycoon Limited, a company incorporated in British Virgin Islands (“**BVI**”) and its ultimate holding company is Exponential Fortune Group Limited (“**Exponential Fortune**”), a company incorporated in the Cayman Islands. The ultimate controlling shareholder of Exponential Fortune is Zhao John Huan, who is also the Chairman of the Company. The addresses of the registered office of the Company is Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-111 Cayman Islands.

The functional currency of the Company is Hong Kong dollars (“**HK dollars**” or “**HK\$**”), while the consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

During the year ended 31 December 2021, the COVID-19 pandemic has resulted in a continuous impact on the Group’s operations in 2021, and constituted to the impairment of goodwill and intangible assets of certain cash generating units (“**CGUs**”) of the Group (further details are given in Note 10). It brought additional challenge to the overall operating environment of the industry and the Group.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instrument, which are measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

Changes in presentation of the consolidated statement of comprehensive income

In previous years, the Group presented an analysis of the Group’s expenses on the face of its consolidated statement of comprehensive income using a classification based on their function within the Group.

Following the disposals of the handbag business, the directors reviewed the presentation of the Group’s consolidated statement of comprehensive income taking into account of the changes that the Group’s core business become mainly engaged in the operation of chain restaurants and the presentation adopted by certain companies within the same industry, and concluded that to present an analysis of expenses using a classification

based on their nature would be more appropriate to the Group's circumstances and more relevant to users of the Group's financial statements. Consequently, the presentation of the consolidated statement of comprehensive income for the year ended 31 December 2021 has been revised and the comparative figures have been reclassified in order to conform to the current year's presentation.

The changes in presentation of the consolidated statement of comprehensive income did not have any impact on the Group's loss for the year or the calculation of the Group's losses per share.

2.1.2 Going concern

As of 31 December 2021, the Group's current liabilities exceeded its current assets by RMB128,000,000. 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 put option for issuance of convertible bonds by the Company (Note 11), the directors of the Company believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements for the next 12 months period commencing from 31 December 2021. Therefore, the financial statements have been prepared on the going concern basis.

2.1.3 New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 *Interest Rate Benchmark Reform — Phase 2*
and HKFRS 16

The Group also elected to adopt the following amendments early:

Amendment to HKFRS 16 *COVID-19-Related Rent Concessions beyond 30 June 2021*

The amendments stated above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

2.1.4 New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published but are not mandatory for 31 December 2021 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations 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 years ended 31 December 2021 and 2020, 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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Restaurant operation	500,903	448,766
Delivery business	206,103	170,758
Sale of food ingredients	<u>45,953</u>	<u>31,167</u>
	<u><u>752,959</u></u>	<u><u>650,691</u></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 years ended 31 December 2021 and 2020, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Franchise income	6,182	2,022
Government grants	4,331	5,381
Management service income (a)	2,976	958
Investment income on wealth management products (b)	1,684	1,975
Interest income on loans	969	926
Others	1,943	1,468
	<u>18,085</u>	<u>12,730</u>

Notes:

- (a) Management service income mainly includes service fees received by the Group in relation to the provision of commercial, management and administrative support services.
- (b) For the year ended 31 December 2021, investment income on wealth management products includes realized gains of RMB1,616,000 (2020: RMB1,694,000) and unrealized gains of RMB68,000 (2020: RMB281,000), both of which are recorded as “other income” in the consolidated statements of comprehensive income.

5 OTHER LOSSES, NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Gain on disposal of right-of-use assets	4,892	5,128
Loss on disposal of property, plant and equipment	(6,269)	(8,408)
Loss on closure of restaurants — net	(2,589)	(108)
Net exchange gain/(loss)	1,506	(1,958)
Others	(1,196)	316
	<u>(3,656)</u>	<u>(5,030)</u>

6 GAIN ON PARTIAL DISPOSAL AND DILUTION OF INVESTMENTS IN ASSOCIATES

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Net gains on partial disposal of investments in associates (a)	61,851	—
Net gains on dilution of investments in associates (b)	20,190	—
	<u>82,041</u>	<u>—</u>

- (a) The amount represented the gains on partial disposal of the Group’s investments in associates.
- i. During the year ended 31 December 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**”, an associate of the Group) to a third party at the consideration of RMB30 million. Upon completion of the disposal, the Group recognized a gain of approximately RMB26.7 million in the consolidated statement of comprehensive income, and Yujian Xiaomian continues to be accounted for as an associate of the Group.
 - ii. During the year ended 31 December 2021, the Group disposed certain interests in Shanghai Seesaw Coffee Company Limited (上海西舍咖啡有限公司) (“**Seesaw**”, an associate of the Group) to a third party (the “**Purchaser**”) at the consideration of RMB40 million. Upon completion of the disposal, the Group recognized a gain of approximately RMB35.2 million in the consolidated statement of comprehensive income, and Seesaw continues to be accounted for as an associate of the Group. As at 31 December 2021, the consideration receivable of RMB36,496,000 (after netting off the related withholding tax which will be withheld by the Purchaser and remitted to the tax bureau pursuant to the share purchase agreement) was recorded as other receivables in the consolidated balance sheet. At the same time, pursuant to the share purchase agreement, the Group had received a deposit of RMB20,000,000 from the Purchaser which will be refunded to the Purchaser immediately before the settlement of the above consideration, and such deposit was recorded as other payables in the consolidated balance sheet as at 31 December 2021.
- (b) The amount represented the dilution gain on the Group’s investments in associates.
- i. During the year ended 31 December 2021, Yujian Xiaomian issued new shares to certain investors. Consequently, the Group’s interests in Yujian Xiaomian were diluted. The increase in share of net assets of RMB7,093,000 after the issuance of new shares net of dilution impact was recognized as a dilution gain in the consolidated statement of comprehensive income.
 - ii. During the year ended 31 December 2021, Tianshuilai (Beijing) Catering Trade Management Co. Ltd (北京天水來餐飲管理有限公司) (“**Tianshuilai**”, an associate of the Group) issued new shares to certain investors. Consequently, the Group’s interests in Tianshuilai was diluted. The increase in share of net assets of RMB2,691,000 after the issuance of new shares net of dilution impact was recognized as a dilution gain in the consolidated statement of comprehensive income.
 - iii. During the year ended 31 December 2021, Seesaw issued new shares to certain investors. Consequently, the Group’s interests in Seesaw was diluted. The increase in share of net assets of RMB10,406,000 after the issuance of new shares net of dilution impact was recognized as a dilution gain in the consolidated statement of comprehensive income.

7 INCOME TAX CREDIT

	Year ended 31 December	
	2021	2020
	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	6,211	—
PRC enterprise income tax (“EIT”)	—	451
	<u>6,211</u>	<u>451</u>
Deferred tax	<u>(20,059)</u>	<u>(10,144)</u>
	<u>(13,848)</u>	<u>(9,693)</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%. (2020: 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 year ended 31 December 2021, Wonderful Dawn Holdings Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong, disposed certain interests in associates (Note 6(a)). 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 FOR THE YEAR

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

	For the Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Depreciation of right-of-use assets	103,406	123,101
Depreciation of property, plant and equipment	39,831	42,723
Amortization of intangible assets	<u>1,404</u>	<u>1,365</u>
Total depreciation and amortization	<u>144,641</u>	<u>167,189</u>
Property rentals		
— office premises (fixed payments)	1,627	334
— restaurants		
— fixed payments	9,231	1,841
— variable lease payments	1,824	2,471
— COVID-19-related rent concessions	(921)	(15,990)
Property management fee	<u>20,520</u>	<u>20,988</u>
Total property rentals and other related expenses	<u>32,281</u>	<u>9,644</u>
Impairment of goodwill and other intangible assets (<i>Note 10</i>)	566,455	—
Auditor's remuneration		
— Audit service	2,300	2,300
— Non-audit services	<u>324</u>	<u>200</u>

9 LOSS PER SHARE

	Year ended 31 December	
	2021	2020
	<i>RMB cents</i>	<i>RMB cents</i>
Basic loss per share (a)	<u>(40.52)</u>	<u>(8.93)</u>
Diluted loss per share (b)	<u>(40.52)</u>	<u>(8.93)</u>

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2021	2020
	Loss attributable to equity holders of the Company used in calculating basic loss per share:	(639,639)
Weighted average number of ordinary shares in issue (thousands)	<u>1,578,664</u>	<u>1,578,664</u>

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under convertible bonds, share option scheme and share award scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the 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.

The computation of diluted loss per share for the years ended 31 December 2021 and 2020 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease loss per share.

10 GOODWILL AND INTANGIBLE ASSETS

	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>	Trademark <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020				
Cost	580,931	11,441	499,346	1,091,718
Accumulated amortisation and impairment	<u>—</u>	<u>(3,319)</u>	<u>—</u>	<u>(3,319)</u>
Net book amount	<u>580,931</u>	<u>8,122</u>	<u>499,346</u>	<u>1,088,399</u>
Year ended 31 December 2020				
Opening net book amount	580,931	8,122	499,346	1,088,399
Additions	—	35	—	35
Disposal	—	(375)	—	(375)
Amortisation charge	<u>—</u>	<u>(1,365)</u>	<u>—</u>	<u>(1,365)</u>
Closing net book amount	<u>580,931</u>	<u>6,417</u>	<u>499,346</u>	<u>1,086,694</u>
At 31 December 2020				
Cost	580,931	11,101	499,346	1,091,378
Accumulated amortisation and impairment	<u>—</u>	<u>(4,684)</u>	<u>—</u>	<u>(4,684)</u>
Net book amount	<u>580,931</u>	<u>6,417</u>	<u>499,346</u>	<u>1,086,694</u>
Year ended 31 December 2021				
Opening net book amount	580,931	6,417	499,346	1,086,694
Additions	—	1,318	—	1,318
Disposal	—	(153)	—	(153)
Amortisation charge	—	(1,404)	—	(1,404)
Impairment	<u>(535,436)</u>	<u>—</u>	<u>(31,019)</u>	<u>(566,455)</u>
Closing net book amount	<u>45,495</u>	<u>6,178</u>	<u>468,327</u>	<u>520,000</u>
At 31 December 2021				
Cost	580,931	12,266	499,346	1,092,543
Accumulated amortisation and impairment	<u>(535,436)</u>	<u>(6,088)</u>	<u>(31,019)</u>	<u>(572,543)</u>
Net book amount	<u>45,495</u>	<u>6,178</u>	<u>468,327</u>	<u>520,000</u>

(a) Useful life of intangible assets

Computer software is amortised on a straight-line basis over the expected useful life of 5 years.

The trademarks have a legal life of 10 years and is renewable every 10 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends and brand extension opportunities have been performed by management of the Group, which support that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, the trademarks are considered by the management of the Group as having an indefinite useful life. The trademarks will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

(b) Impairment tests for goodwill and trademarks

For the purposes of impairment testing, goodwill and trademarks with indefinite useful life have been allocated to the CGUs of the relevant group of restaurants, which comprise: (1) Beijing HHG Restaurant Management Co., Ltd. (“**HHG**”) and its subsidiaries (the “**HHG Group**”); and (2) Beijing Xinladao Catering Management Ltd. (“**Xinladao**”) and its subsidiaries (the “**Xinladao Group**”).

Due to the continuous impact on macroeconomic conditions brought by the outbreak of COVID-19, the operating results of the HHG Group and the Xinladao Group for the year ended 31 December 2021 were below the management’s previous forecasts.

As at 31 December 2021, management has conducted impairment review on the goodwill and trademarks with indefinite useful life of the HHG Group and the Xinladao Group in accordance with HKAS 36 “Impairment of assets”, based on the updated forecasts and assumptions approved by management.

(i) Impairment assessment for the HHG Group

For the HHG Group, the recoverable amount of the CGUs has been determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial forecast approved by management covering a five-year period.

Management engaged an independent external valuer to assist in performing the impairment assessments. Based on management's calculation, the recoverable amount of the HHG Group as at 31 December 2021 amounted to approximately RMB500 million, which was 18% higher than its carrying amount. Key assumptions used to determine the CGUs' value-in-use were as follows:

	Value assigned to key assumption		Approach to determining key assumption
	2021	2020	
Revenue (% compound growth rate)	12.7%	12.1%	Forecasted revenue growth rates and gross margins were determined based on past performance and the management's expectations for the market development.
Gross margins	45.8%	48.5%	
Long-term growth rate	3%	3%	Estimated based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.
Pre-tax discount rates	15.9%	16.3%	Reflect specific risks relating to the relevant segment and the country in which the HHG Group operates.

If the compound revenue growth rates used in the value-in-use calculation for the HHG Group had been 5.3% lower than management's estimates at 31 December 2021 (7.4% instead of 12.7%), the value-in-use of the HHG Group would approximate its carrying amount.

If the gross margins used in the value-in-use calculation for the HHG Group had been 1.4% lower than management's estimates at 31 December 2021 (44.4% instead of 45.8%), the value-in-use of the HHG Group would approximate its carrying amount.

If the pre-tax discount rate applied to the cash flow projections of the HHG Group had been 2.8% higher than management's estimates (18.7% instead of 15.9%), the value-in-use of the HHG Group would approximate its carrying amount.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed their recoverable amounts.

Based on above assessment, management of the Company are of the view that there is no impairment of goodwill and intangible assets with indefinite useful life for the HHG Group as at 31 December 2021.

(ii) Impairment assessment for the Xinladao Group

For the Xinladao Group, management has determined the recoverable amount of the CGUs by assessing the fair value less cost of disposal ("FVLCO") of the underlying assets. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

Management engaged an independent external valuer to assist in performing the impairment assessments. The approach and key assumptions used to determine the CGUs' FVLCOD were as follows:

Valuation Technique	Unobservable inputs	Value assigned to key assumption		Approach to determining key assumption
		2021	2020	
Market approach	Enterprise value/sales multiple (times)	1.26	N/A	Represents the median of the enterprise value/sales multiples of selected comparable public companies (each of which is engaged in the catering business and listed on the Stock Exchange) as at 31 December 2021.
	Discount for lack of marketability (“DLOM”)	25%	N/A	Quantified by the Black-Scholes option pricing model which is one of the methods commonly used in estimating DLOM.
	Control premium	10%	N/A	Estimated based on the median of the control premium adopted for comparable transactions.
	Cost of disposal (% of fair value)	1%	N/A	Estimated based on the Company's experience with disposal of assets and on industry benchmarks.

Based on the FVLCOD determined, which amounted to RMB283 million and was higher than the respective value-in-use, management's impairment assessment as at 31 December 2021 is analysed as follows:

	31 December 2021 RMB'000
Goodwill (attributable to the 87% parent's interest)	535,436
Unrecognised non-controlling interest in goodwill (<i>Note 1</i>)	<u>80,008</u>
Total goodwill	615,444
Carrying amount of identifiable net assets	<u>314,019</u>
Notionally adjusted carrying amount	<u>929,463</u>
Less: recoverable amount (being the FVLCOD)	<u>(283,000)</u>
Impairment loss	<u>646,463</u>

**31 December
2021
RMB'000**

Allocated to:

Amounts not recognised in the consolidated statement of comprehensive income:

— Unrecognised non-controlling interest in goodwill **80,008**

Amounts recognised in the consolidated statement of comprehensive income:

— Goodwill (attributable to the 87% parent's interest) **535,436**

— Trademarks with indefinite useful life (*Note 2*) **31,019**

Total amount recognised in the consolidated statement of comprehensive income **566,455**

Total impairment loss **646,463**

Notes:

1. The goodwill attributable to the Group's interest of 87% was approximately RMB535 million at the acquisition date. Therefore, the goodwill attributable to the non-controlling interest's 13% interest was approximately RMB80 million.
2. Management allocates the remaining impairment loss of approximately RMB31 million to trademarks with indefinite life and no impairment loss is allocated to other non-monetary assets of the CGUs (mainly including property, plant and equipment, and right-of-use assets), because management is of the view that the fair value less costs of disposal or value in use is greater than the respective original carrying value of these assets.

Following the impairment, the Group reassessed the useful life of trademarks with indefinite useful life of the Xinladao Group and considered that their useful lives will not be affected following this decision.

Impact of possible changes in key assumptions

If the enterprise value/sales multiple used in the FVLCOD calculation for the Xinladao Group had been 0.13 times lower than management's estimates at 31 December 2021 (1.13 times instead of 1.26 times), the Group would have had to recognise an additional impairment against the carrying amount of trademarks with indefinite life of approximately RMB29 million.

If the DLOM used in the FVLCOD calculation for the Xinladao Group had been 2.5% higher than management's estimates at 31 December 2021 (27.5% instead of 25%), the Group would have had to recognise an additional impairment against the carrying amount of trademarks with indefinite life of approximately RMB10 million.

If the control premium used in the FVLCOD calculation for the Xinladao Group had been 1% lower than management's estimates at 31 December 2021 (9% instead of 10%), the Group would have had to recognise an additional impairment against the carrying amount of trademarks with indefinite life of approximately RMB3 million.

If the cost of disposal used in the FVLCOB calculation for the Xinladao Group had been 1% higher than management's estimates at 31 December 2021 (2% instead of 1%), the Group would have had to recognise an additional impairment against the carrying amount of trademarks with indefinite life of approximately RMB3 million.

11 DERIVATIVE FINANCIAL INSTRUMENT

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
As at 1 January	72,226	—
Addition	—	46,631
Fair value change	(47,375)	29,262
Exchange difference	(2,308)	(3,667)
	<u>72,226</u>	<u>72,226</u>
As at 31 December	<u>72,226</u>	<u>72,226</u>

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

Pursuant to the 2020 Investment Agreement, at any time during the 2 years commencing from 29 May 2020 the Company may deliver subscription request(s) to the 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 recognized 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 recognized in profit or loss. As at 31 December 2020 and 31 December 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 31 December 2021	As at 31 December 2020
Conversion price	HK\$1.180	HK\$1.180
Share price	HK\$1.050	HK\$0.750
Expected volatility	25.67%	20.50%
Remaining life	0.41 years	1.41 years
Risk-free rate	0.18%	0.08%

12 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (a)	15,929	14,460
Other receivables	<u>90,899</u>	<u>55,999</u>
Total trade and other receivables	<u><u>106,828</u></u>	<u><u>70,459</u></u>
Less: provision for expected credit loss allowance for trade receivables	(406)	(309)
provision for expected credit loss allowance for other receivables	<u>(6,193)</u>	<u>(1,617)</u>
Trade and other receivables — net	<u>100,229</u>	<u>68,533</u>
Less: Non-current portion	<u>(24,255)</u>	<u>(29,213)</u>
Trade and other receivables — current portion	<u><u>75,974</u></u>	<u><u>39,320</u></u>

(a) Trade receivables

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Related parties	470	68
Third parties	<u>15,459</u>	<u>14,392</u>
Subtotal	15,929	14,460
Less: provision for expected credit loss allowance	<u>(406)</u>	<u>(309)</u>
Trade receivables — net	<u><u>15,523</u></u>	<u><u>14,151</u></u>

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	12,237	12,658
Over 6 months	<u>3,692</u>	<u>1,802</u>
	<u><u>15,929</u></u>	<u><u>14,460</u></u>

Movement for expected credit loss allowance

	During the year ended	
	31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	309	226
Provision for expected credit loss allowance	101	83
Written off during the year as uncollectible	(4)	—
	<hr/>	<hr/>
As at 31 December	<u>406</u>	<u>309</u>

13 TRADE AND OTHER PAYABLES

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period obtained for trade purchases is 30 to 180 days.

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (a)	59,166	70,865
Other payables and accruals	119,676	79,358
	<hr/>	<hr/>
	<u>178,842</u>	<u>150,223</u>

(a) Trade payables

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Related parties	6,608	10,914
Third parties	52,558	59,951
	<hr/>	<hr/>
	<u>59,166</u>	<u>70,865</u>

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	57,473	61,578
Over 6 months	1,693	9,287
	<hr/>	<hr/>
	<u>59,166</u>	<u>70,865</u>

14 BORROWINGS

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

(a) Weighted average annual interest rates

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

15 CONVERTIBLE BONDS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current		
Convertible bonds — interest payable	<u>59,801</u>	<u>45,837</u>
Non-current		
Convertible bonds	<u>442,267</u>	<u>439,588</u>

As at 31 December 2021, current portion of the convertible bonds amounted to HK\$73,402,000 (equivalent to approximately RMB59,801,000) (31 December 2020: 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 non-current liabilities.

The major terms and conditions of the convertible bonds issued by the Company (the “**Convertible Bonds**”) are as follows:

(i) **Interest rate:**

The Company shall pay an interest on the Convertible Bonds at 3% per annum.

(ii) **Conversion price:**

The Convertible Bonds will be convertible into the Company’s shares at the initial Conversion Price of HK\$1.18 per share, subject to adjustments. The Conversion Price will be subject to adjustment for, amongst others, consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, capital distribution, dividends, rights issues of shares or options over shares, rights issues of other securities, modification of rights of conversion and other offers to shareholders.

(iii) **Availability period for the Company to issue the Convertible Bonds**

The availability period for the Company to issue the Convertible Bonds is a fixed term of two years commencing from 13 November 2016 and neither party will have the right to extend.

(iv) **Maturity**

The fifth anniversary of the date of issue of the Convertible Bonds, or subject to the agreement of the bondholder, the seventh anniversary of the date of issue.

(v) **Redemption on maturity**

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bond at an amount equal to the principal amount on the maturity date, plus accrued interest and all other amounts accrued or outstanding under the Convertible Bonds which remain unpaid on the maturity date. The Company may not redeem the Convertible Bonds at its option prior to the maturity date, except on redemption on change of control and redemption on delisting as described below.

(vi) **Redemption at the option of the bondholder**

(1) ***Redemption on change of control***

Following the occurrence of a change of control, the bondholder will have the right at its option, to require the Company to redeem in whole but not in part such holder’s Convertible Bonds. The redemption price is the HK dollar equivalent amount which is the outstanding principal amount, plus the amount of interest representing 8% of the internal rate of return of the principal amount of the Bond from the date of issue to the payment date (the “**Early Redemption Amount**”).

(2) ***Redemption on Delisting***

In the event that the Company’s shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange, the bondholder shall have the right, at its option, to require the Company to redeem, in whole but not in part only, such bondholder’s Convertible Bonds at the Early Redemption Amount.

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 recognized in shareholders' equity on special reserve.

The movement in the components of the Convertible Bonds during the years ended 31 December 2020 and 2021 are as follows:

	Liability component <i>RMB'000</i>	Equity component <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2020	482,563	104,294	586,857
Interest expenses (<i>i</i>)	35,214	—	35,214
Exchange difference	<u>(32,352)</u>	<u>—</u>	<u>(32,352)</u>
As at 31 December 2020	<u>485,425</u>	<u>104,294</u>	<u>589,719</u>
As at 1 January 2021	485,425	104,294	589,719
Interest expenses (<i>i</i>)	32,765	—	32,765
Exchange difference	<u>(16,122)</u>	<u>—</u>	<u>(16,122)</u>
As at 31 December 2021	<u>502,068</u>	<u>104,294</u>	<u>606,362</u>

Notes:

- (i) The interest expense of RMB32,765,000 (2020: RMB35,214,000) was calculated using the effective interest method.
- (ii) During the years ended 31 December 2021 and 2020, none of the Convertible Bonds was converted.

16 DIVIDENDS

The Board resolved not to declare any dividend for the year ended 31 December 2021 (2020: nil).

17 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2021 and up to the date of this results announcement, no important event affecting the Group had occurred.

FINAL DIVIDEND

The Board has resolved not to declare final dividend for the year ended 31 December 2021 (2020: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total equity of the Group as at 31 December 2021 was RMB355.4 million (31 December 2020: RMB1,000.7 million). As at 31 December 2021, the Group had current assets of RMB290.9 million (31 December 2020: RMB280.6 million) and current liabilities of RMB418.9 million (31 December 2020: RMB379.1 million). The current ratio was 0.69 as at 31 December 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 31 December 2021, the Group had outstanding borrowings of RMB15.0 million (31 December 2020: RMB16.2 million). As at 31 December 2021, the Group maintained cash and cash equivalents of RMB62.6 million (31 December 2020: RMB123.7 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total borrowings over shareholders' equity) was 0.13 as at 31 December 2021 (31 December 2020: 0.11).

As at 31 December 2021, the Group had outstanding convertible bonds of RMB502.1 million (31 December 2020: RMB485.4 million). Please refer to Note 15 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 Investment Agreement, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements for the next 12 months period commencing from 31 December 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 31 December 2021, the Group had no capital expenditure contracted for but not provided in the consolidated financial statements in respect of property, plant and equipment (31 December 2020: nil).

SIGNIFICANT INVESTMENTS

During the year, the Company did not hold any significant investment with a value of 5% or more of the Company's total assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 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 31 December 2021, save for the Group's buildings with net book value of RMB22.7 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 31 December 2021, the Group did not have any material contingent liabilities (31 December 2020: nil).

GEARING RATIO

As at 31 December 2021, the Group's gearing ratio was 56% (31 December 2020: 27%). This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" and convertible bonds as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are principally conducted in HK dollars, 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 year ended 31 December 2021 (2020: nil).

HUMAN RESOURCES

As at 31 December 2021, the Group had a workforce of about 2,793 people (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 year ended 31 December 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

Throughout the year ended 31 December 2021, 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**") in force.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code. The Company has made specific enquiry with all Directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

AUDIT COMMITTEE

The audit committee of the Company, comprising all the independent non-executive Directors of the Company, has reviewed the audited annual results of the Group for the year ended 31 December 2021 and discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year under review. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

ANNUAL REPORT

This results announcement is published on The Stock Exchange of Hong Kong Limited's website (www.hkexnews.hk) and the Company's website (www.bestfoodholding.com). The annual report of the Company for the year ended 31 December 2021 will be despatched to the shareholders of the Company 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
(百福控股有限公司)
Zhao John Huan
Chairman

Hong Kong, 29 March 2022

As at the date of this announcement, the Board of the Company 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.