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 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**674,451**	373,555
Cost of sales	**(311,991)**	(195,379)
Gross profit	**362,460**	178,176
Gross profit margin	**53.7%**	47.7%
Interest on convertible bonds	**(18,067)**	—
Loss on fair value change on derivative financial instrument	**—**	(947)
Loss for the period	**(17,216)**	(2,971)
Adjusted profit/(loss) for the period *(Note 1)*	**851**	(2,024)
Loss per share (expressed in RMB cents per share)		
— basic	**(1.28)**	(0.25)
— diluted	**(1.28)**	(0.25)

Note 1: The adjusted profit/(loss) for the period excludes interest on convertible bonds and loss on fair value change on derivative financial instrument.

* *For identification purpose only*

COMMENTARY ON THE BUSINESS DEVELOPMENT

Business Review

In 2019, the Group continued to strive for the implementation of the dual-wheel driven strategy focusing on both investment management and operation management. In respect of investment management, Xinladao Fish Hotpot, a leading fish hotpot restaurant chain in China and the acquisition of which was completed by the Group on 30 November 2018, was operating within the Group, achieving the interim goal on the establishment of multi-category brand portfolio of the Group. Xinladao brand, which is still under the consolidation period following the acquisition, is the major source of revenue growth of the Group. Another controlling brand, namely HHG, continued to focus on improving its products and customer experience. Through various means such as enriching product line and extending operating hours for breakfast and dinner, HHG's revenue in 2019 increased by 27.9% as compared to the corresponding period in 2018. In respect of operation management, the Group adhered to enhancing efficiency and reducing costs through collaboration and sharing, thereby continuously "empowering" various key operating procedures of its brands, including supply chain collaboration, general digitalized customer management and centralized talent training at Best Food University. These efforts have been reflected in our operations: the Group arranged the expansion of franchise business for various brands. In particular, Yujian Xiaomian, Clay Pot King, West Master and Sexy Salad gained market awareness immediately after launching the franchise system. In the first half of the year, the Group gradually expanded its operations in various cities including Beijing, Qingdao, Taiyuan, Shenzhen, Nanjing and Xiamen, covering Beijing, Hebei, Shandong, Shanxi, Inner Mongolia, Fujian, Guangdong, as well as other provinces, cities and autonomous regions.

The performance of the following measures adopted by the Group is likely to be reflected in the results for the second half of the year:

(1) HHG is refining the management of the sales ratio and pricing strategy for delivery business and dine-in business of HHG and raising efficiency of supply chain with a view to enhancing revenue while improving overall profitability.

(2) Xinladao is focusing on brand escalation, including precise enhancement of digitization, continuous upgrade of products and stores, optimization of organizational structure and remuneration system, with a view to achieving revenue growth and lowering expenditures in a rational way.

(3) Supply chain collaboration within and outside the Group, as well as sharing of production plants, warehouses and supply systems among brands under the Group. It is expected that costs will be reduced.

(4) With the breakthrough made in franchise mode during the first half of the year, the Company and its brands will explore and establish franchise mode with greater returns in the second half of the year. It is expected that this will support the downturn of franchise channels and facilitate the franchise procedures.

(5) Facilitation of overall digitalization by the Company and its brands, thus connecting data access between various brands and systems, enhancing operating efficiency, and achieving digitalization of customer operation.

For the six months ended 30 June 2019, for the food and beverage segment, the total revenue of invested companies amounted to RMB860.1 million, representing an increase of 86.3% as compared to RMB463.1 million in the last corresponding period. The revenue attributed to the Group amounted to RMB490.4 million, representing an increase of 159.1% as compared to RMB189.3 million in the last corresponding period. The gross profit margin of the food and beverage segment was 64.7%.

The handbags segment of the Group maintained a modest profit. For the six months ended 30 June 2019, the manufacturing and sales of handbags segment recorded revenue of RMB184.1 million, approximately the same as RMB184.3 million in the last corresponding period. The gross profit margin of the manufacturing and sales of handbags segment was 24.5%.

Food and Beverage Segment

Industry Review and Prospects

According to the National Bureau of Statistics of China, the domestic revenue of the food and beverage industry amounted to approximately RMB2.13 trillion in the first half of 2019, with a growth of 9.4% as compared to the corresponding period of last year. The growth rate of the aggregate retail sales of social consumer goods was 8.4%. The Group is of the view that there is no change in the factors driving the long-term growth of the food and beverage industry.

In line with the general trend, the leaders in the food and beverage industry experienced rapid development which was faster than the average growth rate of the industry, making the Group more determined to work on brand building and digitalization.

Strategic Planning Review and Prospects

In the past six months, the Group continued to adhere to its overall strategy of "promoting the continuous growth of corporate value through a dual-wheel driven strategy using investment management and operation management".

For investment management, the revenue and profit from the controlling projects represented an important source of revenue for the food and beverage segment, as well as a core component of collaborative network. In 2019, Xinladao and HHG became the two major contributors to profit of the Group.

For operational management, the Group will continue to put resources into building its value-added service system. In the first half of 2019, the Group acquired franchisees for several brands for the first time, and made significant progress in supply chain collaboration as well as training and human resources. Looking forward to the second half of the year, the Group will provide system support for its brands in terms of operational modules including digitalization and new retail, and operating data analysis, thus "empowering" the long-term development of various brands.

Business Progress

Development in Investment and Investment Management

In 2016, the Group acquired the controlling interest of HHG, a leading fast food chain in Beijing featuring rice meals, and acquired a non-controlling interest in Yujian Xiaomian, a prominent emerging brand, and West Master, a leading Chinese fast food brand in Beijing. In addition, the Group entered into an investment contract with Sexy Salad, a rapidly emerging and prominent brand of salad within the food and beverage industry in China in March 2017; with Yuepin in March 2017 iconic brands of Vietnamese cuisine, Muine and Pho Nam; with Clay Pot King in April 2017, a typical brand of Canton soup rice; with Dafulan in May 2017, a prominent emerging brand featuring Hunan rice noodle and traditional snacks; with Seesaw in May 2017, a typical premium coffee brand; and further with Foook in October 2017, a representative brand of spicy hot pot. The Group has completed investments in all these brands stated above. In June 2018, the Group entered into an investment contract with Xinladao, a leading brand of fish hot pot in China. The first round of investment was completed at the end of November 2018, thus the Group successfully obtained control over Xinladao. Meanwhile, the Group possessed abundant project reserves in major sub-categories under food and beverage industry.

Establishment of Management Platform

In the first half of the year, the Group strived to enhance and build up the capacity of the sharing system, so as to concentrate its resources on facilitating franchise expansion, the supply chain, training and human resources as well as digitalization.

In respect of the franchise business, the Group recruited franchising professionals to set up a franchise business segment to centralize and coordinate the franchising and cooperation of various brands, seek and approach partners which had resources for franchising channel expansion and were experienced in managing a franchising system, select suitable brands, and subsequently proceed with collaboration and cooperation, thus providing robust support for the team for investment promotion of brands for its franchise business.

In respect of the supply chain, in addition to a wider implementation of centralized tenders for procurement to lower the procurement costs, HHG, a brand of the Group, increased its investment in production plants and warehouses in 2019 and planned to negotiate with Xinladao Fish Hotpot on sharing a central factory in the future, so as to enhance capacity utilization and reduce production costs.

In respect of training and human resources, Best Food University had confirmed the development strategy of a market-oriented operation during the first half of 2019. In addition, experienced experts from the catering industry as well as professionals with online and offline teaching experience were recruited, which meant that the team was basically in shape. Meanwhile, having completed its initial product development and content production, the online platform of Best Food University was on trial.

In respect of digitalization, the focus of the first half of 2019 was to facilitate the digitalization system upgrade of controlling brands and make progress in stages. HHG and Xinladao facilitated significant upgrade projects in cashier system, invoicing system and user management system. In the second half of 2019, the Company will strive to link up the data of user management systems across different controlling brands, so as to establish a cross-brand user management system at the level of the Group.

Business Progress of Controlling Brands

HHG

In 2019, HHG went by the strategy of "Activating Organization, Streamlining Varieties, Increasing Categories, Optimizing Quality; Capacity Upgrade, Value Realization; Customer Satisfaction Employee Pride". After six months of practice, HHG is now featured with an extended time for breakfast and dinner with a wide selection of popular food, resulting in the enhanced satisfaction of customers.

Store Network: As of 30 June 2019, HHG had 143 stores, 109 of which were direct stores. During the first half of 2019, there were 14 new franchisees, covering Beijing, Hebei, Shandong, Shanxi, Inner Mongolia and other regions.

Brand Upgrade: During the first half of the year, HHG appointed professional advisers to organize its overall branding strategy and develop specific improvement measures for brand positioning, visual effect and product mix.

Product Development: After six months of practice, HHG extended the service hours for breakfast and dinner. With a wider selection of food on the menu, such as Wonton, noodles and kebabs, store traffic was boosted. Looking forward, HHG will further introduce product and set meal mix focusing on product enhancement and customer experience, and formulate pricing strategies integrating the consumption characteristics and demands of online and offline operations.

Supply Chain: Relying on the centralized procurement center of the Group, the Company enjoyed a centralized procurement price across multiple brands, resulting in the reduction of costs in certain disposable goods and groceries. By constructing warehouses in the suburbs of Beijing and bringing together factories to establish a logistic system, we had spread our service capabilities across Northern China.

During the first half of 2019, HHG saw continuous improvement in its products, positioning and image. During the first half of 2019, year-on-year same-store sales revenue grew by 25.5%. During the first half of 2019, revenue from sales for HHG increased by RMB52.8 million as compared to the corresponding period of 2018, among which revenue from its delivery business increased to 39.2%, as compared to 31.9% in the first half of 2018.

Xinladao

Xinladao was under brand upgrade and adjustment in 2019. During the first half of year 2019, direct store adjustments were generally in place. The Xinladao franchise achieved a breakthrough, marking a first step in expansion in several regions, while the reform of supply chain also made certain progress. We will accelerate product and brand upgrade, encourage system optimization, enhance incentive system, as well as conduct supply chain reform in the second half of the year.

Store Network: As of 30 June 2019, Xinladao had 95 stores. During the first half of 2019, there were 14 new franchisees, covering Zhejiang, Jiangsu, Shanxi, Hebei, Gansu, Inner Mongolia and other regions. In-depth discussion in relation to franchise business in other regions is also in progress.

Brand Upgrade: We experimented a "new store layout and new menu" reform since the end of 2018, which resulted in improvement in single-store revenue. Starting from the first half of 2019, we have begun to upgrade more stores whose leases are about to expire with the new layout.

Operation Management: In respect of team management, positions were streamlined to cut down on redundant staff at the headquarters, which promoted and brought a significant number of young management team members into the management. The Company also attached great importance to the selection and subsequent grooming of talents.

Supply Chain: Through systematically organizing market-based bidding for major raw materials and supplementary materials, raw material costs were reduced. We planned to collaborate with HHG in the second half of the year to produce condiment, which is expected to further bring down the raw material costs and central kitchen costs.

Revenue from sales for Xinladao amounted to RMB248.3 million during the first half of 2019, representing a major contribution to the Group's profit, with profit attributable to the Group amounting to RMB10.8 million.

Business Progress of Joint-Stock Brands

In the first half of 2019, the major joint-stock brands of the Group achieved growth of varying degrees with improvement in operating systems. However, they were yet to make profit contribution to the Group as a whole as the economies of scale were yet to be realized due to the limitation on size and volume, and phased investments were greater. With the constant expansion in store scale as well as further enhancement in brand promotion and operation capacity of each joint-stock brand, it is expected that the joint-stock brands will also be capable to make significant contributions to the profit for the Group. The following is a summary of business data of the investees of the Group for the first half of 2019:

Yujian Xiaomian

For the six months ended 30 June 2019, the revenue of Yujian Xiaomian amounted to RMB60.1 million, which increased by approximately 53.7% as compared to the last corresponding period. In 2019, Yujian Xiaomian actively developed and improved the information system structure of both front-end stores and back office at the headquarters, which laid a solid foundation for the subsequent rapid development. At the same time, Yujian Xiaomian went further in external cooperation, in particular, contracts were signed for 12 franchise stores in Guangzhou, Foshan, Shenzhen and Xiamen regions; and cooperative relationship was established with the franchisees in Shanghai. The current plan is that 50 to 100 stores will be developed in Shanghai, Jiangsu, Zhejiang and Anhui in the coming three years.

West Master

For the six months ended 30 June 2019, the revenue of West Master amounted to RMB85.4 million, which increased by approximately 24.3% as compared to the last corresponding period. The noodle factory established in 2018 started to take noodle orders from external customers. In 2019, West Master tried to adopt the franchising business model and entered into contracts with three franchisees.

Sexy Salad

Sexy Salad will further enhance its edges in user management. Through online marketing campaigns and brand crossover joint promotion campaigns, Sexy Salad has increased its traffic and enhanced its brand awareness. Sales performance in the first half of 2019 was partially affected by discount campaigns. For the six months ended 30 June 2019, the revenue of Sexy Salad amounted to RMB15.8 million, which decreased by 2.5% as compared to the last corresponding period. However, benefiting from organizational restructuring of management team and cost control, loss incurred decreased by 19% as compared to the corresponding period in 2018. Meanwhile, in the first half of the year, Sexy Salad entered into contracts with three franchise stores, covering Guangzhou and Qingyuan in Guangdong Province, as well as Xiamen.

Yuepin

For the six months ended 30 June 2019, the revenue of Yuepin amounted to RMB50.4 million, which increased by approximately 6.1% as compared to the last corresponding period. Excluding new stores, the growth in same store sales of comparable stores under "Muine" and "Pho Nam" was 10.7% and 12.7%, respectively. In 2019, customer satisfaction, employee satisfaction and corporate performance achieved significant improvement as a result of product elevation and upgrading, establishment and enhancement of membership system, and optimization of store assessment and incentive policy.

Dafulan

For the six months ended 30 June 2019, the revenue of Dafulan amounted to RMB23.1 million, which increased by approximately 27.6% as compared to the last corresponding period. In the first half of 2019, Dafulan focused on operation enhancement and optimization and upgrading of products and brand image while implementing a new store assessment and incentive policy, which led to a significant increase in satisfaction of both customers and employees, and also laid a sound foundation for the franchising business to be commenced in the second half of the year.

Clay Pot King

For the six months ended 30 June 2019, the revenue of Clay Pot King amounted to RMB63.2 million, which increased by approximately 42.3% as compared to the last corresponding period. In 2019, Clay Pot King opened new prototype stores for upgrading its image, packaging and taste, and expanded its product line by adding congee and side dish products in order to enhance customer experience for dinner hours.

Seesaw

For the six months ended 30 June 2019, the revenue of Seesaw amounted to RMB33.1 million, which increased by approximately 22.1% as compared to the last corresponding period. In addition to the original stores located at Shanghai, Seesaw further expanded its network in other cities and opened a store in Shenzhen and three stores in Beijing.

Foook

For the six months ended 30 June 2019, the revenue of Foook amounted to RMB36.6 million, which increased by approximately 185.9% as compared to the last corresponding period. In 2019, Foook focused on operation enhancement and improved both customer and employee satisfaction by the "employee incentive program". At the same time, Foook optimized and upgraded its brand image and made a bold move in model innovation by introducing self-service stores with price ladders and presenting a variety of seafood dishes, which consolidated the brand barrier.

Manufacturing and Sales of Handbags Segment

In the first half of the year 2019, the major customers of the manufacturing and sales of handbags segment remained stable and were the same as those in 2018, namely LULULEMON, VERA BRADLEY, WORLD CAT and H&M. The customer base was broadened with several new customers. The factory in Myanmar commenced official production in July 2018, and was responsible for production of about 17.1% of the products in the first half of 2019. Due to its low labor costs and fixed costs, the factory effectively improved the profit contribution.

For the six months ended 30 June 2019, the manufacturing and sales of handbags segment recorded revenue of RMB184.1 million, approximately the same as that in the last corresponding period.

OUTLOOK

Based on the foundation of the key work in the first half of 2019, we will continue to advance the dual-wheel driven strategy, consolidate and improve the core businesses below, and achieve healthy and sustainable development of the Company's profitability in the future:

— In terms of brand building, we will continue to concentrate on products and services, with digitalization as the core, and flexibly commence online and offline multi-dimensional marketing to further optimize customer experience and enhance brand value;

— As to store network, we will constantly improve our store coverage, expanding the store network through various means including establishment of direct stores and franchise;

— Supply chain integration and optimization of operation platform remain one of the foci of our work;

— In respect of new business, we put emphasis on the profitability of existing businesses while prudently allocating resources on new business or asset acquisition opportunities.

INTERIM RESULTS

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 2019 together with comparative figures for the last corresponding period as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**674,451**	373,555
Cost of sales		**(311,991)**	(195,379)
Gross profit		**362,460**	178,176
Distribution and selling expenses		**(262,615)**	(118,816)
General and administrative expenses		**(86,427)**	(62,841)
Net impairment losses on financial assets		**(113)**	—
Other income	*4*	**11,522**	7,502
Other gains, net		**1,937**	2,054
Operating profit		**26,764**	6,075
Finance income	*5*	**752**	593
Finance expenses	*5*	**(15,972)**	(1,067)
Interest on convertible bonds	*5*	**(18,067)**	—
Finance expenses — net	*5*	**(33,287)**	(474)
Share of loss of associates		**(5,916)**	(2,506)
(Loss)/profit before taxation		**(12,439)**	3,095
Income tax expense	*6*	**(4,777)**	(6,066)
Loss for the period	*7*	**(17,216)**	(2,971)
Loss for the period attributable to:			
Owners of the Company		**(19,523)**	(3,687)
Non-controlling interests		**2,307**	716

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**6,717**	(37,202)
Other comprehensive income/(loss) for the period		**6,717**	(37,202)
Total comprehensive loss for the period		**(10,499)**	(40,173)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(12,806)**	(40,889)
Non-controlling interests		**2,307**	716
		(10,499)	(40,173)
Loss per share (RMB cents) — Basic	*9*	**(1.28)**	(0.25)
Loss per share (RMB cents) — Diluted	*9*	**(1.28)**	(0.25)

CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 June 2019** *RMB'000* **(unaudited)**	As at 31 December 2018 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**240,340**	248,048
Prepaid lease payments		**40,587**	40,663
Right-of-use assets		**386,661**	—
Investment properties		**36,228**	35,426
Investments in associates		**287,060**	292,975
Goodwill		**580,931**	583,931
Intangible assets		**508,139**	508,106
Deferred tax assets		**30,586**	31,388
Defined benefit assets		**5,183**	5,183
Trade and other receivables	*10*	**42,959**	43,379
Financial assets at fair value through other comprehensive income		**5,003**	2,000
Other non-current assets		**5,047**	4,745
		2,168,724	1,795,844
CURRENT ASSETS			
Inventories		**105,372**	94,202
Prepaid lease payments		**531**	531
Trade and other receivables	*10*	**115,226**	120,323
Other current assets		**64,542**	82,067
Tax recoverable		**844**	996
Financial assets at fair value through profit or loss		**60,200**	42,194
Cash and cash equivalents		**132,296**	302,277
		479,011	642,590
Total Assets		**2,647,735**	2,438,434

	Notes	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*11*	**188,529**	366,412
Contract liabilities		**65,966**	79,261
Lease liabilities		**75,087**	—
Borrowings		**—**	5,000
Tax payable		**10,812**	5,206
Convertible bonds-interest payable		**17,321**	19,800
		357,715	475,679
NON-CURRENT LIABILITIES			
Payable in relation to put right of non-controlling interests		**103,496**	103,496
Convertible bonds		**436,705**	517,592
Lease liabilities		**318,678**	—
Deferred tax liabilities		**123,783**	124,868
Borrowings		**229,725**	229,742
Deferred government grants		**7,054**	3,761
		1,219,441	979,459
TOTAL LIABILITIES		**1,577,156**	1,455,138
CAPITAL AND RESERVES			
Share capital		**133,022**	122,949
Reserves		**851,031**	776,128
Equity attributable to owners of the Company		**984,053**	899,077
Non-controlling interests		**86,526**	84,219
TOTAL EQUITY		**1,070,579**	983,296
TOTAL LIABILITIES AND EQUITY		**2,647,735**	2,438,434

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").

Key events

On 15 March 2019, the Company received a conversion notice from Sonic Tycoon Limited in respect of the exercise of the conversion rights attached to the convertible bonds in an aggregate principal amount of HK$139,323,520 at the conversion price of HK$1.18 per Share (the "Conversion"). As a result of the Conversion, the Company allotted and issued a total of 118,070,780 conversion shares on 22 March 2019 to Sonic Tycoon Limited.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2018.

2.1 Change in accounting policies

This note explains the impact of the adoption of HKFRS 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

(a) ***Adjustments recognised on adoption of HKFRS 16***

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%-6.6%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	464,304
Discounted using the lessee's incremental borrowing rate of at the date of initial application	414,368
(Less): short-term leases recognised on a straight-line basis as expense	(4,800)
Lease liability recognised as at 1 January 2019	**409,568**
Of which are:	
Current lease liabilities	128,693
Non-current lease liabilities	280,875
	409,568

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	As at	As at
	30 June 2019	1 January 2019
	RMB'000	*RMB'000*
Properties	**386,661**	407,614

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets — increase by RMB407,614,000
- other current assets — decrease by RMB17,440,000
- other payables — decrease by RMB19,394,000
- lease liabilities — increase by RMB409,568,000.

There is no impact on retained earnings on 1 January 2019. In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(b) ***The Group's leasing activities and how these are accounted for***

The Group leases various offices, warehouses and restaurants. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(i) *Variable lease payments*

Estimation uncertainty arising from variable lease payments

Some property leases for restaurants contain variable payment terms that are linked to sales generated from the restaurants. For individual restaurants, up to 100 per cent of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

A 5% increase in sales across all stores in the Group with such variable lease contracts would increase total lease payments by approximately 1.5%.

(ii) *Extension and termination options*

Extension and termination options are included in certain leases of the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments under HKFRS 8 Operating Segments, based on information reported to the Company's executive directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, which focuses on types of goods or services delivered or provided.

The Group's operating and reportable segments under HKFRS 8 — Operating Segments are as follows:

(i) Manufacturing and sales of handbags; and

(ii) Food and beverage business.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the six months ended 30 June 2019

	Manufacturing and sales of handbags *RMB'000*	**Food and beverage business** *RMB'000*	**Consolidated** *RMB'000*
Total revenue	**184,067**	**490,384**	**674,451**
Inter — segment revenue	**—**	**—**	**—**
Segment revenue — external	**184,067**	**490,384**	**674,451**
Segment gross profit	**45,021**	**317,439**	**362,460**
Distribution and selling expenses			**(262,615)**
General and administrative expenses			**(86,427)**
Net impairment losses on financial assets, net			**(113)**
Other income			**11,522**
Other gains, net			**1,937**
Finance expenses, net			**(33,287)**
Share of loss of associates			**(5,916)**
Loss before taxation			**(12,439)**

For the six months ended 30 June 2018

	Manufacturing and sales of handbags *RMB'000*	Food and beverage business *RMB'000*	Consolidated *RMB'000*
Total revenue	184,300	189,255	373,555
Inter — segment revenue	—	—	—
Segment revenue — external	184,300	189,255	373,555
Segment gross profit	53,072	125,104	178,176
Distribution and selling expenses			(118,816)
General and administrative expenses			(62,841)
Other income			7,502
Other gains, net			2,054
Finance expenses, net			(474)
Share of losses of associates			(2,506)
Profit before taxation			3,095

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period.

Geographical Information

The Group's revenue from external customers by geographical location during the period is as follows:

	Revenue from external customers	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
PRC	**502,838**	200,802
USA	**75,491**	74,061
Canada	**24,535**	21,489
Other European countries	**18,526**	15,603
Other Asian countries	**16,610**	18,005
Italy	**15,264**	7,016
Germany	**9,031**	14,303
Hong Kong	**6,148**	13,137
United Kingdom	**2,605**	2,194
Middle East and Africa	**1,565**	409
Netherlands	**1,449**	2,195
South America	**389**	4,341
	674,451	373,555

4. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Franchise related service income	**4,088**	596
Government grants	**2,669**	3,146
Sample sales	**1,306**	571
Interest income on financial assets at fair value through profit or loss	**1,076**	797
Interest income on loans to related parties	**392**	407
Management service income	**388**	568
Rental income	**145**	166
Others	**1,458**	1,251
	11,522	7,502

5. FINANCE INCOME AND EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**752**	593
Finance expenses		
Interest on convertible bonds	**(18,067)**	—
Interest on lease liabilities	**(11,852)**	—
Interest on loan from a third party	**(3,764)**	(1,184)
Interest on bank borrowings	**(339)**	—
Others	**(23)**	(414)
Less: Interest expenses capitalised	**6**	531
	(34,039)	(1,067)
Finance expenses, net	**(33,287)**	(474)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	**192**	3,849
PRC Enterprise Income Tax	**6,105**	1,483
	6,297	5,332
Deferred tax	**(1,520)**	734
	4,777	6,066

Cayman Islands

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

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2019 and 2018.

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.

Myanmar

The Myanmar subsidiary is subjected to Myanmar Corporate Income Tax at a rate of 25%. No provision for Myanmar Corporate Income Tax has been made for both periods as the Myanmar subsidiary incurred losses for both periods.

Thailand

The Thailand subsidiary is subjected to Thailand Corporate Income Tax at a rate of 20%. No provision for Thailand Corporate Income Tax has been made for both periods as the Thailand subsidiary incurred losses for both periods.

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Loss for the period has been arrived at after charging/(crediting):		
Directors' emoluments	**208**	195
Staff salaries and other benefits, excluding those of directors	**153,308**	80,097
Retirement benefit schemes contributions (excluding directors)	**339**	746
Total employee benefit expense	**153,855**	81,038
Cost of inventories recognised as expenses	**324,419**	213,645
Depreciation of property, plant and equipment	**28,737**	10,931
Depreciation of right-of-use assets	**63,537**	—
Operating lease expenses	**—**	36,839
Amortisation of intangible assets	**834**	31
Amortisation of deferred government grants	**(2,597)**	(3,230)
Net loss on fair value changes on derivative financial instruments	**—**	947
Interest income on bank balances	**(752)**	(593)
Net exchange gain	**(1,990)**	(2,996)
Loss/(gain) on disposal of property, plant and equipment	**1,034**	(5)

8. DIVIDENDS

The board of directors of the Company has determined not to declare interim dividend for the six months ended 30 June 2019 (2018: nil).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of RMB19,523,000 (2018: RMB3,687,000) and the weighted average number of ordinary shares in issue of 1,525,825,695 (2018: 1,460,593,220) during the period.

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

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Trade receivables	**74,670**	88,857
Other receivables	**83,905**	75,122
	158,575	163,979
Less: provision for impairment	**(390)**	(277)
Trade and other receivables — net	**158,185**	163,702
Less: Non-current portion	**(42,959)**	(43,379)
Trade and other receivables — current portion	**115,226**	120,323

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

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Within 6 months	**73,905**	77,395
Over 6 months	**765**	11,462
	74,670	88,857

11. TRADE AND OTHER PAYABLES

	As at 30 June 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Trade payables	**92,771**	91,413
Other payables and accruals	**95,758**	274,999
	188,529	366,412

The aging analysis of trade payables at the end of the reporting period is as follows:

	As at 30 June 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Within 6 months	**92,025**	91,023
Over 6 months	**746**	390
	92,771	91,413

12. The condensed consolidated interim financial information is unaudited, but has been reviewed by the Audit Committee.

INTERIM DIVIDEND

The Board has determined not to declare interim dividend for the six months ended 30 June 2019 (2018: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2019 was RMB1,070.6 million (31.12.2018: RMB983.3 million). As at 30 June 2019, the Group had current assets of RMB479.0 million (31.12.2018: RMB642.6 million) and current liabilities of RMB357.7 million (31.12.2018: RMB475.7 million). The current ratio was 1.34 as at 30 June 2019 as compared to 1.35 as at 31 December 2018.

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong. As at 30 June 2019, the Group had no outstanding bank borrowings (31.12.2018: RMB 5.0 million). As at 30 June 2019, the Group maintained cash and cash equivalents of RMB132.3 million (31.12.2018: RMB302.3 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total borrowings over shareholders' equity) was 0.12 as at 30 June 2019 (31.12.2018: 0.30).

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of the property, plant and equipment improvement in the amount of RMB1.24 million.

The Group has sufficient cash and available bank reserve to meet the Group's capital commitments and working capital requirements.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there were no significant events after the reporting period.

HUMAN RESOURCES

As at 30 June 2019, the Group had a workforce of about 6,740 people (Food and beverage business: 3,250 people, Manufacturing and sales of handbags: 3,490 people). The Group maintains a good relationship with its employees, and provides them with proper training and competitive compensation and incentives. The staff is remunerated based on their work performance, professional experience and prevailing market situation. Remuneration packages comprise salary and bonuses based on individual merits.

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

During the six months ended 30 June 2019, 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

Code Provision E.1.2 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "**Corporate Governance Code**") stipulates that the chairman of the board should attend the annual general meeting. The Company held its annual general meeting for the year ended 31 December 2018 (the "**2018 AGM**") on 29 June 2019. Due to conflict of schedules and other prior business engagement outside Hong Kong, Mr. Zhao John Huan, the Chairman, was unable to attend the 2018 AGM. Mr. Wang Xiaolong, Mr. Jing Shen, Mr. Leung Kwai Kei, Mr. Heng Victor Ja Wei, Mr. Tsang Hin Man, Terence and the Company's external auditor attended the 2018 AGM and answered questions raised by the shareholders of the Company at the meeting physically.

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be clearly defined and should not be performed by the same individual. During the six months ended 30 June 2019, Mr. Zhao John Huan served as the Company's chairman and chief executive officer. Mr. Zhao John Huan supervised the management of the Group's business with the assistance of senior management of the Group. Other general positions to be dealt with by the chief executive are served by the senior management of the Group. The Board believes that such management structure has effectively promoted the operation and development of the Group and its business in the past, and the Group has established a mechanism for censorship and checks and balances necessary to improve corporate governance practices. However, to better comply with Code provision A.2.1 and to optimize the roles of the members of the Board, with effect from 26 August 2019. Mr. Zhao John Huan resigned as the chief executive officer of the Company and Mr. Wang Xiaolong was appointed as the chief executive officer of the Company.

Save as disclosed above, the Company has complied with the Corporate Governance Code throughout the six months ended 30 June 2019.

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 of 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 enquiries with all Directors and they have confirmed that they have complied with the Model Code during the reporting period.

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 of the Company. The audit committee of the Company has also discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

INTERIM REPORT

This results announcement is published on The Stock Exchange of Hong Kong Limited's website (www.hkex.com.hk) and the Company's website (http://www.irasia.com/listco/hk/bestfood/index.htm). The interim report of the Company will be despatched to the shareholders and will be available on websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

On behalf of the Board
Zhao John Huan
Chairman

Hong Kong, 26 August 2019

As at the date of this announcement, the Board of the Company comprises 3 executive Directors, namely, Mr. Zhao John Huan, Mr. Wang Xiaolong and Mr. Jing Shen and 3 independent non-executive Directors, namely, Mr. Leung Kwai Kei, Mr. Heng Victor Ja Wei and Mr. Tsang Hin Man, Terence.