BEST FOOD HOLDING COMPANY LIMITED
百 福 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01488)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue	**610,619**	537,510
Adjusted loss for the year *(Note)*	**(53,406)**	(102,983)
Adjusted items		
Interest on convertible bonds	**(37,815)**	(39,971)
Loss on fair value change on derivative financial instrument	**—**	(23,754)
Impairment of intangible assets	**(95,299)**	—
Tax impact in respect of the impairment on intangible assets	**23,825**	—
Loss for the year	**(162,695)**	(166,708)
Loss per share attributable to equity holders of the Company:		
Loss per share (RMB cents) — basic and diluted	**(9.61)**	(9.90)

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, loss on fair value change on derivative financial instrument, impairment of intangible assets and tax impact in respect of the impairment on intangible assets. The Group uses such adjusted loss as an additional financial measure to supplement the consolidated financial statements which are presented in accordance with Hong Kong Financial Reporting Standards ("**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 indicative of the operating performance of the Group.

Such 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.

PERFORMANCE REVIEW

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

For the year 2023, the Group's total system sales, including sales of all restaurants, both owned and franchised under the brands of the Group and its associates, amounted to RMB3,750 million, representing an increase of 40.4% over the corresponding period of 2022. As at 31 December 2023, the number of stores under all the brands of the Group and its associates was 1,060, with a net increase in newly opened direct-sale stores and franchised stores of more than 180 stores as compared with that as at 31 December 2022. For the year 2023, the revenue of the Group amounted to RMB611 million, representing an increase of 13.6% over the corresponding period of 2022.

In early 2023, with the lifting of COVID-19 pandemic control measures, the food and beverage consumption recovered, which have attracted a large number of entrepreneurs to enter the food and beverage industry, resulting in fierce competition. Consumption subsided from the second quarter onwards, and the performance of the Group's various brands diverged.

"HHG" focused on the development of all day food products with high cost-performance value, and enriched its menu to meet the diversified dining needs of customers. At the same time, HHG improved the development of its franchise system, implemented the policy of "Direct Sales and Franchise Integration", reformed the incentive system to actively promote the franchise business, and opened nearly 30 new franchised stores.

In 2023, "Yujian Xiaomian" focused on improving efficiency and reducing costs, adhered to promoting digital development, optimized the ordering, store and membership systems, and enhanced customer experience and operational efficiency of stores. During 2023, the brand scale expanded rapidly, covering a variety of business districts with more than 250 stores.

"King of Clay Pot" focused on improving product satisfaction, featuring stewing pots made of purple sand and precise temperature control technology to ensure the stable quality of claypot rice. In 2023, it successfully opened nearly 50 stores in regions such as Jiangsu, Zhejiang, Shanghai and Anhui, contributing considerable profits to the brand.

"Panda Hot Pot" grew steadily in 2023, doubling the number of its stores as compared to 2022, while focusing on boosting the profitability of stores. It explored the efficient and small-sized stores of less than 200 square meters to lay the foundation for large-scale expansion and replication in the future.

The performance of certain brands with higher menu prices was under pressure, and these brands have been implementing various measures to improve their business models, optimize their products and expand their channels in order to enhance their performance.

Operational and Digital Empowerment

In 2023, the digital team of Best Food continued to optimise certain self-developed systems and applications, which have been put into operation for some of the brands. It focused on assisting the implementation of the Group's key businesses, improving the efficiency of operational decision-making, and realizing the synergy among customers, traffic flows and cooperative resources of various brands at the Group level. This will enable the Group to achieve the effectiveness of its digital-driven platform as soon as possible.

Investment Empowerment

In 2023, Best Food focused on the provision of various value-added services for the brands operated by its associates with a view to increasing the value of each of the brands. During 2023, some of the brands operated by the Group's associates achieved good operating results and made positive contribution to the Group's financial performance. Individual brands have initiated preparation for listing in the public market. Best Food retains full confidence in the long-term value growth of the brands operated by its associates.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased by 13.6% from RMB537.5 million for the year ended 31 December 2022 to RMB610.6 million for the corresponding period of 2023, among which revenue from restaurant operations increased by 13.7% from RMB282.5 million for the year ended 31 December 2022 to RMB321.3 million for the corresponding period of 2023, and revenue from delivery business increased by 2.6% from RMB207.9 million for the year ended 31 December 2022 to RMB213.4 million for the corresponding period of 2023, which was mainly attributable to the increase in customer flow and the improved operating performance of restaurants as a result of the lifting of the COVID-19 pandemic control measures.

Raw material used and changes in inventories of finished goods

Raw material used and changes in inventories of finished goods increased by 11.8% from RMB208.1 million for the year ended 31 December 2022 to RMB232.7 million for the corresponding period of 2023, which was mainly attributable to the normalisation of restaurant operations after the COVID-19 pandemic. Raw material used and changes in inventories of finished goods as a percentage of revenue were 38.7% for the year ended 31 December 2022 and 38.1% for the corresponding period of 2023, respectively, and such decrease was mainly attributable to the reduction of food waste as the restaurants were able to operate normally.

Online platform service charges and delivery fees

Online platform service charges and delivery fees increased by 1.5% from RMB38.6 million for the year ended 31 December 2022 to RMB39.2 million for the corresponding period of 2023. Online platform service charges and delivery fees as a percentage of revenue from delivery business decreased from 18.6% for the year ended 31 December 2022 to 18.4% for the year ended 31 December 2023.

Employee benefit expense

Employee benefit expense increased by 0.9% from RMB173.0 million for the year ended 31 December 2022 to RMB174.6 million for the corresponding period of 2023, and employee benefit expense as a percentage of revenue decreased from 32.2% for the year ended 31 December 2022 to 28.6% for the corresponding period of 2023, which was mainly attributable to the increase in revenue during the reporting period.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 16.7% from RMB84.7 million for the year ended 31 December 2022 to RMB70.6 million for the corresponding period of 2023; depreciation of right-of-use assets as a percentage of revenue decreased from 15.8% for the year ended 31 December 2022 to 11.6% for the corresponding period of 2023, which was mainly attributable to the increase in revenue during the reporting period, as well as the closure of certain underperforming restaurants with lower revenue contribution during the second half of 2022 and 2023.

Depreciation and amortisation of other assets

Depreciation and amortisation of other assets decreased by 18.0% from RMB27.6 million for the year ended 31 December 2022 to RMB22.6 million for the corresponding period of 2023. Depreciation and amortisation of other assets as a percentage of revenue decreased from 5.1% for the year ended 31 December 2022 to 3.7% for the corresponding period of 2023, which was mainly due to the increase in revenue during the reporting period, as well as the closure of certain underperforming restaurants and disposal of underlying assets with lower revenue contribution during the second half of 2022 and 2023.

Property rentals and other related expenses

Property rentals and other related expenses decreased from RMB18.8 million for the year ended 31 December 2022 to RMB18.3 million for the corresponding period of 2023, property rentals and other related expenses as a percentage of revenue decreased from 3.5% for the year ended 31 December 2022 to 3.0% for the corresponding period of 2023, which was mainly attributable to the increase in revenue during the reporting period.

Other expenses

Other expenses increased by 7.1% from RMB55.1 million for the year ended 31 December 2022 to RMB59.0 million for the corresponding period of 2023, which was mainly attributable to the recovery of the operating activities, of which (i) the daily maintenance expenses increased by RMB1.5 million; and (ii) business development expenses increased by RMB1.6 million. In addition, there was an increase in impairment of property, plant and equipment of RMB2.3 million as a result of the provision for impairment made for the assets of certain underperforming restaurants during the reporting period. Other expenses as a percentage of revenue decreased from 10.3% for the year ended 31 December 2022 to 9.7% for the corresponding period of 2023, which was mainly attributable to the growth of revenue during the reporting period.

Finance expenses — net

Finance expenses — net (which includes finance income, finance expenses and interest on convertible bonds) decreased by 9.0% from RMB51.9 million for the year ended 31 December 2022 to RMB47.2 million for the corresponding period of 2023, which was mainly attributable to the decrease in interest on convertible bonds and the decrease in interest on lease liabilities as a result of the closure of some restaurants during the reporting period.

Income tax expense/credit

Income tax expense amounted to RMB4.5 million for the year ended 31 December 2023, as compared to income tax credit of RMB15.5 million for the corresponding period of 2022, which was mainly due to the increase in tax loss for which no deferred income tax assets were recognised, as management considers it not probable that future taxable profits will be available to utilise those tax losses of certain group entities.

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 RMB151.7 million, as compared to loss attributable to equity holders of the Company of RMB156.2 million for the year ended 31 December 2022. Operating losses diminished as restaurant operation business resumed in 2023. At the same time, the Group recognised impairment loss on trademarks in the amount of approximately RMB95.3 million in 2023 (2022: nil). Please refer to the section headed "Trademarks" below and note 10 to the consolidated financial results of the Company in this announcement for further details about the impairment loss.

Non-GAAP Financial Measure

Adjusted loss for the year

The adjusted loss for the year is an additional financial measure, which is not required by, or presented in accordance with the HKFRS. It is calculated as the loss for the year excluding interest on convertible bonds, loss on fair value change on derivative financial instrument, impairment of intangible assets and tax impact in respect of the impairment on intangible assets. The table below sets forth the reconciliation of loss for the year to adjusted loss for the year:

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Loss for the year	**(162,695)**	(166,708)
Interest on convertible bonds	**37,815**	39,971
Loss on fair value change on derivative financial instrument	**—**	23,754
Impairment of intangible assets	**95,299**	—
Tax impact in respect of the impairment on intangible assets	**(23,825)**	—
Adjusted loss for the year	**(53,406)**	(102,983)

The Group uses such 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 indicative of the operating performance of the Group.

Such 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 recognised 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 2023, the Group recognised right-of-use assets with an amount of RMB149.0 million (as of 31 December 2022: RMB188.4 million).

Investments in associates

Total investments in associates amounted to RMB229.8 million as at 31 December 2023, as compared to RMB249.1 million for the corresponding period of 2022, representing a decrease of 7.7%, which was mainly attributable to the dividend distribution received from an associate in 2023, as well as the recovery of part of the investments due to the capital reduction of an associate.

Trademarks

Net book amount of the Group's trademarks decreased by 20.3% from RMB468.3 million as of 31 December 2022 to RMB373.0 million as of 31 December 2023, which was attributable to the recognized impairment loss of trademarks for the year ended 31 December 2023 of RMB95.3 million (2022: nil). For further details, please refer to note 10 to the consolidated financial results of the Company in this announcement for further details.

Upon completion of the acquisition of Beijing Xinladao Catering Management Ltd. ("**Xinladao**") and its subsidiaries (the "**Xinladao Group**") in November 2018 (the "**Acquisition**"), (i) the excess amount of the total consideration for the Acquisition over the fair value of the net identifiable assets of the Xinladao Group was recognized as goodwill, which amounted to approximately RMB535 million; and (ii) acquired identifiable intangible assets of approximately RMB400 million represented trademark of Xinladao Group. Details of the Acquisition are set out in the announcements of the Company dated 19 June 2018, 18 October 2018 and 30 November 2018, and the circular of the Company dated 2 October 2018.

Since completion of the Acquisition, management of the Company has been conducting annual impairment review on the goodwill and trademarks with indefinite useful life attributable to the Xinladao Group in accordance with HKAS 36 "Impairment of assets", or more frequently if events or changes in circumstances indicate potential impairment. For the purpose of conducting the impairment assessment, the recoverable amount of the Xinladao Group is determined as the higher of value in use ("**VIU**") and fair value less costs of disposal ("**FVLCOD**"). VIU is calculated using the discounted cash flow method based on the business plan of the Xinladao Group as approved by the management, while FVLCOD is primarily affected by the market condition of the chain-restaurant industry in which the Xinladao Group operates.

In the second half of 2023, the Xinladao Group accelerated the transformation of its business model to cope with changes in the consumer market and the macro-economy, and pushed forward the implementation of the strategy of integrating its direct-sales and franchising businesses. The Xinladao Group also restructured its owned store network by steadily operating profitable stores and closing those with unsatisfactory operating results, while investing in the expansion of its franchised store network.

For the purpose of the impairment review conducted as at 31 December 2023, the management of the Company has taken into account the situation of comparable companies in the capital markets, as well as Xinladao's results of operations for the year 2023 and future expectations, including (1) in respect of the calculation of the fair value less cost of disposal, the management noted that as at 31 December 2023, the market statistics for the enterprise value to sales ratios ("**enterprise value to sales ratios**") of certain comparable companies listed on the Stock Exchange have decreased when compared to that as at 31 December 2022; and (2) for the purpose of VIU calculations, the management has updated the Xinladao Group's business plan based on its business objectives in line with the operating scale in 2023, which mainly consists of the number of directly operated and franchised restaurants. Taking into account the impact of the business model restructuring and intensified market competition, the management decided to adjust downward the target number of restaurants of the Xinladao Group's directly operated and franchised outlets during the forecast period, which resulted in a decrease in the projected revenue growth rate for the forecast period.

According to the management's assessment of impairment based on the higher of (1) the FVLCOD calculated in accordance with the market approach using key inputs as at 31 December 2023; and (2) the VIU calculated based on the Xinladao Group's updated business plan as at 31 December 2023, an impairment loss on trademark of RMB95.3 million was recorded for the year ended 31 December 2023.

Inventories

Inventories mainly represented the food ingredients used in restaurant operation. Inventories decreased from RMB24.2 million as of 31 December 2022 to RMB23.4 million as of 31 December 2023. For the years ended 31 December 2022 and 2023, the turnover days of inventories, calculated based on the average inventory at the beginning of the year and that at the end of the year divided by the costs of raw materials and consumables during the same year and multiplied by 365 days, decreased from 52 days to 37 days, which was mainly due to the normalization of restaurant operations after the COVID-19 pandemic, and thereby accelerated the inventory turnover speed.

Trade and other receivables

Trade and other receivables decreased by 11.4% from RMB90.3 million as of 31 December 2022 to RMB80.1 million as of 31 December 2023, among which, other receivables decreased by 9.4% from RMB77.0 million as of 31 December 2022 to RMB69.7 million as of 31 December 2023, which was mainly attributable to the provision for expected credit losses as a result of certain consideration receivable due from third party in relation to a disposal of approximately RMB16.5 million being overdue.

Trade and other payables

Trade and other payables decreased from RMB168.0 million as of 31 December 2022 to RMB143.8 million as of 31 December 2023, among which, trade payables decreased from RMB53.9 million as of 31 December 2022 to RMB48.8 million as of 31 December 2023, and the turnover days of trade payables decreased from 99 days for the year ended 31 December 2022 to 81 days for the corresponding period of 2023, which was attributable to the timely settlement of certain purchases.

Borrowings

As of 31 December 2023, the Group had short-term borrowings of RMB11.0 million (as of 31 December 2022: RMB14.8 million).

Convertible bonds

As of 31 December 2023, convertible bonds and related interests totalled RMB594.4 million, representing an increase of RMB46.0 million as compared to RMB548.4 million as of 31 December 2022. The increase in convertible bonds as of 31 December 2023 was mainly attributable to the interest incurred and the effect of change in exchange rate during the reporting period.

Lease liabilities

As of 31 December 2023, the total lease liabilities amounted to RMB154.7 million, representing a decrease of 29.1% as compared to RMB218.2 million as of 31 December 2022. Such decrease in lease liabilities was mainly attributable to the rent payment for existing lease and the closure of certain restaurants during the year ended 31 December 2023.

FUTURE PROSPECTS

In 2024, competition in the food and beverage industry will remain intense, and franchise business will continue to grow in scale. The potential for growth in the industry will stay unchanged in the long run. In particular, companies and brands that are leading in scale and digital operation capabilities will have more competitive edge. The Group will stay committed to the implementation of its strategic deployment, so as to continuously develop its core capabilities for value creation and bring rewards to its shareholders, including without limitation:

(i) increasing the value of each brand and enterprise in a bid to contributing profits to the Group;

(ii) adhering to the pursuit of development of franchise as a strategy; and

(iii) enhancing its digital operation capabilities.

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 2023 together with comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**610,619**	537,510
Other income	*4*	**30,012**	9,874
Raw material used and changes in inventories of finished goods		**(232,710)**	(208,106)
Online platform service charges and delivery fees		**(39,204)**	(38,614)
Employee benefit expense		**(174,608)**	(172,984)
Depreciation of right-of-use assets		**(70,579)**	(84,694)
Depreciation and amortisation of other assets		**(22,637)**	(27,602)
Utility expenses		**(20,141)**	(19,146)
Property rentals and other related expenses		**(18,286)**	(18,836)
Other expenses	*5*	**(59,049)**	(55,118)
Provision for of expected credit loss allowance for financial assets, net		**(16,917)**	(6,766)
Impairment of intangible assets	*10*	**(95,299)**	—
Other losses, net	*6*	**(1,713)**	(2,191)
Finance income		**142**	130
Finance expenses		**(9,499)**	(12,016)
Interest on convertible bonds	*14*	**(37,815)**	(39,971)
Loss on fair value change on derivative financial instrument		**—**	(23,754)
Share of profit/(loss) of associates		**1,453**	(19,895)
Impairment loss on investment in an associate		**(1,937)**	—
Loss before taxation		**(158,168)**	(182,179)
Income tax (expense)/credit	*7*	**(4,527)**	15,471
Loss for the year	*8*	**(162,695)**	(166,708)
Loss for the year attributable to:			
Equity holders of the Company		**(151,657)**	(156,242)
Non-controlling interest		**(11,038)**	(10,466)
		(162,695)	(166,708)

	Note	Year ended 31 December **2023** ***RMB'000***	2022 *RMB'000*
Other comprehensive loss			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,480)**	(23,839)
Item that may not be reclassified subsequently to profit or loss:			
Change in fair value of an equity investment at fair value through other comprehensive income		**—**	(819)
Other comprehensive loss for the year, net of tax		**(2,480)**	(24,658)
Total comprehensive loss for the year		**(165,175)**	(191,366)
Total comprehensive loss for the year attributable to:			
— Equity holders of the Company		**(154,137)**	(180,757)
— Non-controlling interests		**(11,038)**	(10,609)
		(165,175)	(191,366)
Loss per share for loss attributable to equity holders of the Company:			
Loss per share (RMB cents) — basic	*9*	**(9.61)**	(9.90)
Loss per share (RMB cents) — diluted	*9*	**(9.61)**	(9.90)

CONSOLIDATED BALANCE SHEET

At 31 December 2023

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**60,182**	80,140
Right-of-use-assets		**148,968**	188,381
Investments in associates		**229,848**	249,104
Goodwill	*10*	**45,495**	45,495
Intangible assets	*10*	**375,451**	472,806
Deferred tax assets		**33,426**	61,368
Other receivables	*11*	**12,154**	17,727
Other non-current assets		**1,255**	1,843
		906,779	1,116,864
Current assets			
Inventories		**23,377**	24,211
Trade and other receivables	*11*	**67,916**	72,610
Other current assets		**36,788**	27,146
Financial assets at fair value through profit or loss		**36,121**	66,721
Cash and cash equivalents		**35,636**	34,097
Restricted cash		**1,744**	1,707
		201,582	226,492
Total Assets		**1,108,361**	1,343,356

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Current liabilities			
Trade and other payables	*12*	**143,789**	167,980
Contract liabilities		**61,956**	62,979
Lease liabilities		**59,089**	72,216
Borrowings	*13*	**11,000**	14,820
Tax payable		**5,546**	5,213
Convertible bonds — interest payable due within one year	*14*	**16,602**	16,366
		297,982	339,574
Non-current liabilities			
Convertible bonds	*14*	**577,788**	532,024
Lease liabilities		**95,610**	145,946
Deferred tax liabilities		**90,196**	114,021
Deferred government grants		**32**	1,183
		763,626	793,174
Total liabilities		**1,061,608**	1,132,748
Capital and reserves			
Share capital		**133,023**	133,023
Reserves		**(133,040)**	19,777
(Deficit)/equity attributable to equity holders of the Company		**(17)**	152,800
Non-controlling interests		**46,770**	57,808
Total equity		**46,753**	210,608
Total liabilities and equity		**1,108,361**	1,343,356

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 address 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 Company's primary subsidiaries are incorporated in the People's Republic of China (the "**PRC**") and these subsidiaries consider RMB as their functional currency. The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial results 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 results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

HKFRS comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants.

The consolidated financial results 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 results 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.

2.1.2 Going concern

As of 31 December 2023, the Group's current liabilities exceeded its current assets by RMB96,400,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Group's ability to generate net cash inflows from its future operating activities, the directors of the Company believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements for the next 12 months period commencing from 31 December 2023. 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 new and amended standards for the first time for the annual reporting period commencing 1 January 2023:

Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 12	*International Tax Reform — Pillar Two Model Rules*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
HKFRS 17	*Insurance Contracts*

The new and amended standards listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for the amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction. Upon adoption of the amendments, the Group recognises deferred tax assets and deferred tax liabilities for the temporary differences associated with right-of-use assets and lease liabilities at the beginning of the earliest comparative period (1 January 2022). The adoption of this amendment did not have any material impact on the financial results.

2.1.4 New and amended standards not yet adopted

Certain amendments to accounting standards and interpretations have been published but are not mandatory for 31 December 2023 reporting period and have not been early adopted by the Group. These 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.

	Amendments and interpretations	**Effective date**
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*	Annual periods beginning on or after 1 January 2024
Amendments to HKAS 1	*Non-current Liabilities with Covenants*	Annual periods beginning on or after 1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — *Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*	Annual periods beginning on or after 1 January 2024
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*	Annual periods beginning on or after 1 January 2024
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*	Annual periods beginning on or after 1 January 2024
Amendments to HKAS 21	*Lack of Exchangeability*	Annual periods beginning on or after 1 January 2025
Amendments to HKAS 28 and HKFRS 10	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Undetermined

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 2023 and 2022, the CODM focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is reviewed. Accordingly, no operating segment information is presented.

Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Restaurant operation	**321,254**	282,544
Delivery business	**213,377**	207,935
Sale of food ingredients	**75,988**	47,031
	610,619	537,510

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 2023 and 2022, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4 OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Franchise income	**13,724**	4,905
Government grants *(a)*	**11,647**	1,645
Investment income on wealth management products *(b)*	**1,105**	1,706
Interest income on loans	**381**	222
Others	**3,155**	1,396
	30,012	9,874

Notes:

(a) For the year ended 31 December 2023, there were no unfulfilled conditions or other contingencies attaching to these government grants. Government grants relating to costs were deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(b) For the year ended 31 December 2023, investment income on wealth management products included realized gains of RMB525,000 (2022: RMB1,199,000) and unrealized gains of RMB580,000 (2022: RMB507,000), both of which were recorded as "other income" in the consolidated statements of comprehensive income.

5 OTHER EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Daily maintenance expenses	**15,950**	14,454
Business development expense	**11,976**	10,357
Advertising and marketing expenses	**8,777**	8,349
Professional fees	**5,020**	6,057
Impairment of property, plant and equipment	**3,004**	748
Impairment of right-of-use assets	**2,548**	3,373
Auditors' remuneration		
— Audit services	**1,950**	1,990
— Non-audit services	**153**	163
Other expenses	**9,671**	9,627
Total other expenses	**59,049**	55,118

6 OTHER LOSSES, NET

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Gain on disposal of right-of-use assets	**3,581**	2,522
Loss on disposal of property, plant and equipment	**(3,200)**	(2,664)
Loss on closure of restaurants — net	**(666)**	(1,528)
Net exchange (loss)/gain	**(171)**	309
Others	**(1,257)**	(830)
	(1,713)	(2,191)

7 INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current income tax		
Withholding income tax in relation to dividends received from an associate	**339**	—
PRC enterprise income tax ("**EIT**")	**71**	47
	410	47
Deferred tax	**4,117**	(15,518)
	4,527	(15,471)

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

The PRC

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

Withholding income tax

During the year ended 31 December 2023, Wonderful Dawn Holdings Limited, a wholly owned subsidiary of the Company incorporated in Hong Kong, received dividends from an associate which is incorporated in the PRC. The taxable income 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	
	2023	2022
	RMB'000	*RMB'000*
Depreciation of right-of-use assets	**70,579**	84,694
Depreciation of property, plant and equipment	**21,220**	26,138
Amortization of intangible assets	**1,417**	1,464
Total depreciation and amortization	**93,216**	112,296
Property rentals		
— office premises (fixed payments)	**438**	442
— restaurants		
— fixed payments	**9,737**	7,033
— variable lease payments	**2,227**	1,991
— COVID-19-related rent concessions	**(6,713)**	(5,890)
Property management fee	**12,597**	15,260
Total property rentals and other related expenses	**18,286**	18,836
Impairment of goodwill and other intangible assets *(Note 10)*	**95,299**	—
Auditor's remuneration		
— Audit service	**1,950**	1,990
— Non-audit services	**153**	163

9 LOSS PER SHARE

	Year ended 31 December	
	2023	2022
	RMB cents	*RMB cents*
Basic loss per share *(a)*	**(9.61)**	(9.90)
Diluted loss per share *(b)*	**(9.61)**	(9.90)

(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	
	2023	2022
Loss attributable to equity holders of the Company used in calculating basic loss per share:	**(151,657)**	(156,242)
Weighted average number of ordinary shares in issue (thousands)	**1,578,664**	1,578,664

(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 2023 and 2022 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 *RMB'000*	Computer software *RMB'000*	Trademark *RMB'000*	Total *RMB'000*
At 1 January 2022				
Cost	580,931	12,266	499,346	1,092,543
Accumulated amortisation and impairment	(535,436)	(6,088)	(31,019)	(572,543)
Net book amount	45,495	6,178	468,327	520,000
Year ended 31 December 2023				
Opening net book amount	45,495	6,178	468,327	520,000
Additions	—	104	—	104
Disposal	—	(339)	—	(339)
Amortisation charge	—	(1,464)	—	(1,464)
Closing net book amount	45,495	4,479	468,327	518,301
At 31 December 2023				
Cost	580,931	12,031	499,346	1,092,308
Accumulated amortisation and impairment	(535,436)	(7,552)	(31,019)	(574,007)
Net book amount	45,495	4,479	468,327	518,301
Year ended 31 December 2023				
Opening net book amount	45,495	4,479	468,327	518,301
Additions	—	85	—	85
Disposal	—	(724)	—	(724)
Amortisation charge	—	(1,417)	—	(1,417)
Impairment	—	—	(95,299)	(95,299)
Closing net book amount	45,495	2,423	373,028	420,946
At 31 December 2023				
Cost	580,931	11,392	499,346	1,091,669
Accumulated amortisation and impairment	(535,436)	(8,969)	(126,318)	(670,723)
Net book amount	45,495	2,423	373,028	420,946

(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 cash generating units ("**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**").

As at 31 December 2023, 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 was determined based on a value-in-use calculation as at 31 December 2023 and 2022. The calculation used 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 2023 amounted to approximately 358 million (2022: 432 million), which was 13.8% (2022: 25.7%), 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**
	2023	2022	
Revenue (% compound growth rate)	**9.0%**	13.8%	Forecasted revenue growth rates and gross margins were determined based on past performance and the management's expectations for the market development.
Gross margins	**42.6%**	45.3%	
Long-term growth rate (perpetual growth rate)	**2.2%**	3.0%	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	**16.3%**	16.0%	Reflect specific risks relating to the relevant segment and the country in which the HHG Group operates.

Impact of possible changes in key assumptions

- If the compound revenue growth rates used in the value-in-use calculation for the HHG Group had been 4.6% lower than management's estimates at 31 December 2023 (4.4% instead of 9.0%), 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 1.1% lower than management's estimates at 31 December 2023 (41.5% instead of 42.6%), 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 2.6% higher than management's estimates (18.9% instead of 16.3%), 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 2023.

(ii) ***Impairment assessment for the Xinladao Group***

For the Xinladao Group, management had determined the recoverable amount of the CGUs by assessing the fair value less cost of disposal ("**FVLCOD**") of the underlying assets as at 31 December 2023 and 2022, which was higher than the value-in-use of the Xinladao Group as at 31 December 2023 and 2022 respectively. The valuation was 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 as at 31 December 2023 were as follows:

Valuation Technique	**Unobservable inputs**	**Value assigned to key assumption**		**Approach to determining key assumption**
		2023	2022	
Market approach	Enterprise value/sales multiple (times)	**0.71**	1.39	As at 31 December 2023 and 2022, the enterprise value/sales multiples represent the respective 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 the end of the reporting period. The comparable companies adopted in the valuation represented a same group of comparable public companies as at 31 December 2023 and 2022, except for the addition of one public company in the group of comparable companies as at 31 December 2023, which was not included as at 31 December 2022 as the directors considered it not comparable to the Xinladao Group based on the then circumstances.
	Discount for lack of marketability ("**DLOM**")	**25%**	25%	Quantified by the Black-Scholes option pricing model which is one of the methods commonly used in estimating DLOM.
	Control premium	**10%**	10%	Estimated based on the median of the control premium adopted for comparable transactions.
	Cost of disposal (% of fair value)	**1%**	1%	Estimated based on the Company's experience with disposal of assets and on industry benchmarks.

Based on the above approach and key assumptions, the FVLCOD of the Xinladao Group amounted to RMB116 million (2022: RMB249 million) and was 45.1% lower than its carrying amount. As such, management's impairment assessment as at 31 December 2023 is analysed as follows:

	31 December 2023
	RMB'000
Carrying amount of identifiable net assets	211,299
Less: recoverable amount (being the FVLCOD)	(116,000)
Impairment loss	95,299
Allocated to:	
— Trademarks with indefinite useful life *(Note)*	95,299

Notes:

Management allocates the impairment loss of approximately RMB95 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 0.07 times lower than management's estimates at 31 December 2023 (0.64 times instead of 0.71 times), the Group would have had to recognise an additional impairment against the carrying amount of trademarks with indefinite life of approximately RMB12 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 2023 (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 RMB4 million.

As to the value-in-use calculations of the Xinladao Group as at 31 December 2023, management used cash flow projections based on financial forecast approved by management covering a five-year period from year 2024 to 2028 (2022: a six-year period from year 2023 to 2028, the length of which was determined to be more than five years because during the acquisition of the Xinladao Group in 2018, management had prepared a ten-year financial budget from 2019 to 2028 after performing due diligence work and considering various factors including industry characteristics of the chained hotpot restaurants, development stage of the Xinladao Group, predictability of business plan and operating scale, net operating cashflow forecasted versus funding needs for business expansions, etc. Therefore, during the impairment tests after the acquisition, management determined it is appropriate to keep the same forecast period covered by the original financial budget and update the forecast until 2028, after which a stable perpetual growth rate is adopted). The key assumptions adopted in the value-in-use calculations were as follows:

	Value assigned to key assumption		Approach to determining key assumption
	2023	2022	
Revenue (% compound growth rate)	**1.8%**	11.7%	Forecasted revenue growth rates and gross margins were determined based on past performance and the management's expectations for the market development.
Gross margins	**60%**	64%	
Long-term growth rate (perpetual growth rate)	**2.2%**	3.0%	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	**16.8%**	15.9%	Reflect specific risks relating to the relevant segment and the country in which the Xinladao Group operates.

Based on the above assessment, the amount of impairment loss as calculated under the value-in-use calculation is higher than that calculated using the FVLCOD. As a result, management of the Company is of the view that impairment losses of RMB95.3 million, being the difference of the FVLCOD of the Xinladao Group and the respective carrying amount, are recognised for trademarks with indefinite useful life for the Xinladao Group as at 31 December 2023 (2022: nil).

11 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables *(a)*	**11,327**	13,737
Other receivables *(b)*	**98,803**	89,743
Total trade and other receivables	**110,130**	103,480
Less: provision for expected credit loss allowance for trade receivables	**(959)**	(361)
provision for expected credit loss allowance for other receivables	**(29,101)**	(12,782)
Trade and other receivables — net	**80,070**	90,337
Less: Non-current portion	**(12,154)**	(17,727)
Trade and other receivables — current portion	**67,916**	72,610

(a) Trade receivables

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Related parties	**1,708**	934
Third parties	**9,619**	12,803
Subtotal	**11,327**	13,737
Less: provision for expected credit loss allowance	**(959)**	(361)
Trade receivables — net	**10,368**	13,376

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	
	2023	2022
	RMB'000	*RMB'000*
Within 6 months	**9,652**	11,500
Over 6 months	**1,675**	2,237
	11,327	13,737

Movement for expected credit loss allowance

	During the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
As at 1 January	**361**	406
Provision for expected credit loss allowance	**598**	177
Written off during the year as uncollectible	**—**	(222)
As at 31 December	**959**	361

12 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	
	2023	2022
	RMB'000	*RMB'000*
Trade payables (a)	**48,817**	53,855
Other payables and accruals	**94,972**	114,125
	143,789	167,980

(a) Trade payables

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Related parties	**8,870**	7,604
Third parties	**39,947**	46,251
	48,817	53,855

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	
	2023	2022
	RMB'000	*RMB'000*
Within 6 months	**42,961**	52,565
Over 6 months	**5,856**	1,290
	48,817	53,855

13 BORROWINGS

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current		
Secured		
Bank borrowings *(c)*	**—**	3,820
Guaranteed		
Bank borrowings *(d)*	**1,000**	1,000
Unsecured		
Bank borrowings	**10,000**	10,000
Total borrowings	**11,000**	14,820

(a) Maturity of borrowings

At 31 December, the Group's borrowings were repayable as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
12 months or less	**11,000**	14,820

(b) Weighted average annual interest rates

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Bank borrowings	**3.06%**	4.01%

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

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

14 CONVERTIBLE BONDS

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current		
Convertible bonds — interest payable due within one year	**16,602**	16,366
Non-current		
Convertible bonds	**577,788**	532,024

As at 31 December 2022, current portion of the convertible bonds (the "**Convertible Bonds**") issued by the Company to Sonic Tycoon Limited (the "**Investor**") amounted to HK$18,320,000 (equivalent to approximately RMB16,366,000), which represented interest payable due on 23 November 2023 and was calculated at the coupon rate of 3% per annum (the "**2023 Due Interest**"). The remaining amount of the Convertible Bonds were classified as non-current liabilities, including the interest payable accrued from 23 November 2018 (the date of issue) to 23 November 2022 (the fourth anniversary of the date of issue) given the Investor had sent a notice to the Company on 19 December 2022, in accordance with the terms of the Convertible Bonds, pursuant to which the Investor agreed the Company to postpone the payment date of such interest to 23 November 2025.

On 20 November 2023, the Investor sent a notice to the Company, pursuant to which the Investor agreed to postpone the payment date of the 2023 Due Interest to 23 November 2025. As at 31 December 2023, current portion of the Convertible Bonds amounted to HK$18,320,000 (equivalent to approximately RMB16,602,000), which represented interest payable due on 23 November 2024 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 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, capitalisation 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.

On 19 December 2022, the Company sent a notice to the Investor and obtained the consent from the Investor thereon, pursuant to which the Company and the Investor agreed that the maturity date of the Convertible Bonds be extended to the seventh anniversary of the date of issue (i.e. from 23 November 2023 to 23 November 2025).

(v) Redemption on maturity

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds 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 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 recognised in shareholders' equity on special reserve.

The movement in the components of the Convertible Bonds during the years ended 31 December 2022 and 2023 are as follows:

	Liability component *RMB'000*	Equity component *RMB'000*	Total *RMB'000*
As at 1 January 2022	502,068	104,294	606,362
Interest expenses *(a)*	39,971	—	39,971
Modification *(b)*	(43,688)	—	(43,688)
Exchange difference	50,039	—	50,039
As at 31 December 2022	548,390	104,294	652,684
As at 1 January 2023	**548,390**	**104,294**	**652,684**
Interest expenses *(a)*	**37,815**	**—**	**37,815**
Exchange difference	**8,185**	**—**	**8,185**
As at 31 December 2023	**594,390**	**104,294**	**698,684**

Notes:

(a) The interest expense of RMB37,815,000 (2022: RMB39,971,000) was calculated using the effective interest method.

(b) On 19 December 2022, the maturity date of the Convertible Bonds was extended from 23 November 2023 to 23 November 2025. Based on management's assessment, the above extension of maturity date does not constitute a substantial modification of the Convertible Bonds, and therefore does not result in an extinguishment of the Convertible Bonds.

Accordingly, on 19 December 2022, the Group adjusted the carrying amount of the Convertible Bonds to the present value of the cash flows under the revised terms using the original effective interest rate (being 7.79%), which amounted to HK$537,870,000 (equivalent to approximately RMB481,787,000). The difference between the adjusted carrying amount and the previous carrying amount immediately prior to the modification, which amounted to HK$48,906,000 (equivalent to approximately RMB43,688,000), is recognized as a deemed contribution from shareholder and recorded in shareholder's equity on special reserve.

(c) During the years ended 31 December 2023 and 2022, none of the Convertible Bonds was converted.

15 DIVIDENDS

The Board resolved not to declare any dividend for the year ended 31 December 2023 (2022: nil).

16 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2023 and up to the date of approval of the consolidated financial statements, 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 2023 (2022: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total equity of the Group as at 31 December 2023 was RMB46.8 million (31 December 2022: RMB210.6 million). As at 31 December 2023, the Group had current assets of RMB201.6 million (31 December 2022: RMB226.5 million) and current liabilities of RMB298.0 million (31 December 2022: RMB339.6 million). The current ratio was 0.68 as at 31 December 2023 as compared to 0.67 as at 31 December 2022.

The Group generally finances its operations and possible redemption with internally generated cash flow, bank borrowings and convertible bonds. As at 31 December 2023, the Group had outstanding borrowings of RMB11.0 million (31 December 2022: RMB14.8 million). As at 31 December 2023, the Group maintained cash and cash equivalents of RMB35.6 million (31 December 2022: RMB34.1 million). The Group's net cash-to-equity ratio (being cash and cash equivalents net of total borrowings over shareholders' equity) was 0.53 as at 31 December 2023 (31 December 2022: 0.09).

As at 31 December 2023, the Group had outstanding convertible bonds of RMB594.4 million (31 December 2022: RMB548.4 million). Please refer to Note 14 to the consolidated financial results of the Company in this announcement for further details.

The Group possesses sufficient cash and available financing facilities to meet its commitments and working capital requirements. Considering the Group's ability to generate net cash inflows from its future operating activities, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements for the next 12-month period commencing from 31 December 2023. Based on the above, considering the Company's ability to generate net cash inflows from its future operating activities and the assets held by the Company, 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 2023, the Group had no capital expenditure contracted for but not provided in the consolidated financial results in respect of property, plant and equipment (31 December 2022: nil).

SIGNIFICANT INVESTMENTS

During the 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 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

GEARING RATIO

As at 31 December 2023, the Group's gearing ratio was 92% (31 December 2022: 72%). This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and convertible bonds as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

FOREIGN EXCHANGE EXPOSURE

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

HUMAN RESOURCES

As at 31 December 2023, the Group had a workforce of about 1,779 people (2022: about 2,162 people). The Group maintains a good relationship with its employees, and provides them with proper training and competitive compensation and incentives. The staff are remunerated based on their work performance, professional experience and prevailing market situation.

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

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

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2023, the Company has complied with the then applicable code provisions set out in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 (which was renumbered to Appendix C1 with effect from 31 December 2023) of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in force.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 (which was renumbered to Appendix C3 with effect from 31 December 2023) 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 2023.

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 2023 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 2023 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 and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

ANNUAL REPORT

This results announcement is published on the Stock Exchange'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 2023 will be made available to the shareholders of the Company on websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 26 March 2024

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.