# K2 F&B Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 2108)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board") of K2 F&B Holdings Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 (the "Reporting Period") together with the comparative figures for the corresponding period in 2017 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | *Notes* | **2018** *S$'000* | 2017 *S$'000* |
|---|---|---|---|
| **Revenue** | *6* | **44,995** | 43,975 |
| Fair value gain of investment properties | | **2,050** | 589 |
| Other gains and losses, net | *7* | **202** | 211 |
| Cost of inventories consumed | | **(17,179)** | (16,459) |
| Staff costs | | **(11,517)** | (10,702) |
| Property rentals and related expenses | | **(6,226)** | (5,737) |
| Management, cleaning and utilities expenses | | **(1,732)** | (2,324) |
| Depreciation | | **(367)** | (404) |
| Listing expenses | *9* | **(2,265)** | – |
| Other operating expenses | | **(2,363)** | (1,866) |
| Finance costs | *8* | **(1,228)** | (1,182) |
| **Profit before taxation** | *9* | **4,370** | 6,101 |
| Taxation | *10* | **(371)** | (590) |
| **Profit for the year** | | **3,999** | 5,511 |
| Other comprehensive income, net of tax | | **–** | – |
| Profit and total comprehensive income for the year | | **3,999** | 5,511 |
| **Earnings per share** | | | |
| Basic and diluted (Singapore cents) | *12* | **0.67** | 0.92 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | Notes | 2018 S$'000 | 2017 S$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **83,650** | 81,600 |
| Property, plant and equipment | *13* | **2,118** | 2,371 |
| Deposits paid | | **225** | 343 |
| | | **85,993** | 84,314 |
| **Current assets** | | | |
| Inventories | | **161** | 176 |
| Trade and other receivables | *14* | **532** | 371 |
| Prepayments and deposits paid | | **3,243** | 550 |
| Other financial assets | | **664** | 628 |
| Amount due from a shareholder | | **–** | 4,274 |
| Pledged bank deposit | | **15** | 15 |
| Cash and cash equivalents | | **4,911** | 6,415 |
| | | **9,526** | 12,429 |
| **Current liabilities** | | | |
| Trade payables | *15* | **2,766** | 2,845 |
| Accruals and other payables | | **2,747** | 2,815 |
| Deposits received and receipts in advance | | **786** | 1,051 |
| Borrowings | | **6,458** | 6,746 |
| Tax payables | | **674** | 636 |
| | | **13,431** | 14,093 |
| **Net current liabilities** | | **(3,905)** | (1,664) |
| **Total assets less current liabilities** | | **82,088** | 82,650 |
| **Non-current liabilities** | | | |
| Borrowings | | **44,934** | 46,054 |
| Deposits received | | **259** | 262 |
| | | **45,193** | 46,316 |
| **Net assets** | | **36,895** | 36,334 |
| **Capital and reserves** | | | |
| Share capital | | **–*** | –* |
| Reserves | | **36,895** | 36,334 |
| **Total equity** | | **36,895** | 36,334 |

* *The balance represents an amount less than S$1,000.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2018*

## 1. GENERAL INFORMATION

K2 F&B Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 March 2018 under the name of the K2 Capital Investment Holdings Limited. On 27 December 2018 the name of the Company changed to K2 F&B Holdings Limited. Its ultimate controlling party is Mr. Chu Chee Keong ("Mr. Chu"), who is also the executive director of the Company. The Company has been registered as a non–Hong Kong company under Part 16 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) on 25 July 2018. Its shares were initially listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 March 2019.

The Company's registered office address is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1–1111, Cayman Islands. The head office and principal place of business of the Group is at 83 Genting Lane, #08–00, Genting Building, Singapore, 349568.

The Company is an investment holding company and its subsidiaries (the "Group") are principally engaged in the leasing, outlet and stall management. The consolidated financial statements are presented in Singapore dollars ("S$"), which is the functional currency of its Group. All values are rounded to the nearest thousand ("S$'000"), except when otherwise indicated.

## 2. REORGANISATION

Prior to the reorganisation (the "Reorganisation") as fully explained in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" of the Company's prospectus dated 21 February 2019 (the "Prospectus"), Mr. Chu held 100% of the equity interests of K2 F&B Holdings Limited. Mr Chu (the "Controlling Shareholder") is acting in concert, and beyond on his ownerships and exercise his control collectively over the companies now comprising the Group.

Pursuant to the Reorganisation, the Company becomes the holding company of the companies now comprising the Group on 5 September 2018. The companies now comprising the Group were under the control of subsidiaries before and after the Reorganisation. Accordingly, the consolidated financial statement has been prepared on the basis by applying the principles of merger accounting as if the Reorganisation has been completed at the beginning of the reporting period.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the reporting period or since their respective date of incorporation, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2017 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

All intra–group transactions and balances have been eliminated on consolidation.

## 3. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

## 4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### (a) New standards and revised existing standards adopted by the Group

The Group has applied the following new standards which are effective for the financial year beginning on 1 January 2018.

| | |
|---|---|
| IFRIC–Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share–based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014–2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

Except as described below, the application of the new standards and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.

***Amendments to IAS 40 Transfers of Investment Property***

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

### (b) New and revised IFRSs that have been issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective in the consolidated financial statements.

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2015–2017 Cycle[1] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to IFRS 10 and IAS 28 | Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| IFRS 3 (Amendments) | Business Combinations[5] |
| IFRS 16 | Leases[1] |
| IFRS 17 | Insurance Contracts[3] |
| IAS 1 and IAS 8 (Amendments) | Amendments to Definition of Material[2] |
| Amendments to IAS 19 | Employee Benefits on Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IAS 28 | Long–term Interest in Associates and Joint Ventures[1] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2021.
4 No mandatory effective date yet determined but available for adoption.
5 Effective for business combination and assets acquisition for which the acquisition date is on or after the beginning of the first annual period on or after 1 January 2020.

## 5. OPERATING SEGMENT INFORMATION

For management's purpose, the Group is organised into two operating business segments, namely:

### (a) Outlet management

Outlet management operations are involved in the leasing of food establishment premises to tenants and the provision of management, cleaning and utilities services to tenants.

### (b) Food and beverage stalls

Food and beverage operations are primarily involved in retailing of beverage, tobacco products, and cooked food directly to consumers through the stalls such as mixed vegetable rice, zi char, roasted meat and chicken rice located in food establishments operated and managed by the Group and third party.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements.

**Year ended 31 December 2018**

| | Outlet Management | Food and beverage stalls | Unallocated | Total |
|---|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Revenue** | | | | |
| Revenue from contracts with customers: | | | | |
| Recognised at a point in time | – | 36,862 | – | 36,862 |
| Recognised over time | 2,460 | – | – | 2,460 |
| | 2,460 | 36,862 | – | 39,322 |
| Revenue from other sources: | | | | |
| Rent income | 5,673 | – | – | 5,673 |
| Inter segment revenue | 12,578 | – | – | 12,578 |
| Adjustment and elimination | (12,578) | – | – | (12,578) |
| **Total revenue** | 8,133 | 36,862 | – | 44,995 |
| **Segment profit/(loss)** | 4,741 | 2,500 | (2,871) | 4,370 |
| **Other segment information:** | | | | |
| Bad debts written off | (34) | – | – | (34) |
| Fair value gain on investment properties | 2,050 | – | – | 2,050 |
| Exchange gain | – | – | 67 | 67 |
| Finance costs | (925) | – | (303) | (1,228) |
| Depreciation | (57) | (205) | (105) | (367) |
| Staff costs | (9,404) | – | (2,113) | (11,517) |
| Property rentals and related expenses | (5,443) | (783) | – | (6,226) |
| Interest income | – | – | 77 | 77 |
| **Assets and liabilities:** | | | | |
| Segment assets | 87,800 | 2,406 | 5,313 | 95,519 |
| Segment liabilities | 43,494 | 3,254 | 11,876 | 58,624 |

**Year ended 31 December 2017**

| | Outlet Management *S$'000* | Food and beverage stalls *S$'000* | Unallocated *S$'000* | Total *S$'000* |
|---|---|---|---|---|
| **Revenue** | | | | |
| Revenue from contracts with customers: | | | | |
| Recognised at a point in time | – | 35,200 | – | 35,200 |
| Recognised over time | 3,484 | – | – | 3,484 |
| | 3,484 | 35,200 | – | 38,684 |
| Revenue from other sources: | | | | |
| Rent income | 5,291 | – | – | 5,291 |
| Inter segment revenue | 8,666 | – | – | 8,666 |
| Adjustment and elimination | (8,666) | – | – | (8,666) |
| **Total revenue** | 8,775 | 35,200 | – | 43,975 |
| **Segment profit/(loss)** | 4,116 | 4,912 | (2,927) | 6,101 |
| **Other segment information:** | | | | |
| Fair value gain from investment properties | 589 | – | – | 589 |
| Exchange loss | (17) | – | – | (17) |
| Finance costs | (934) | – | (248) | (1,182) |
| Depreciation | (71) | (164) | (169) | (404) |
| Staff costs | (8,011) | (86) | (2,605) | (10,702) |
| Property rentals and related expenses | (4,686) | (1,051) | – | (5,737) |
| Interest income | – | – | 95 | 95 |
| **Assets and liabilities:** | | | | |
| Segment assets | 84,485 | 4,558 | 7,700 | 96,743 |
| Segment liabilities | 45,185 | 3,245 | 11,979 | 60,409 |

**Information about major customers**

There is no single major customer that contributed more than 5% of the Group's total revenue. The revenue is spread over a broad base of customers.

**Geographical information**

The Group operates mainly in Singapore with revenue generated in Singapore. Accordingly, analysis of revenue and assets of the Group by geographical distribution has not been presented.

## 6. REVENUE

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| Revenue from contract with customers | | |
| Revenue recognised at point in time | | |
| Sales of cooked food, beverage and tobacco products | **36,862** | 35,200 |
| Revenue recognised over time | | |
| Provision of management, cleaning and utilities services | **2,460** | 3,484 |
| | **39,322** | 38,684 |
| Revenue from other sources | | |
| Rental income from leases of premises to tenants | **5,673** | 5,291 |
| | **44,995** | 43,975 |

## 7. OTHER GAINS AND LOSSES, NET

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| Government grants: | | |
| — Productivity and Innovation Credit | **5** | 12 |
| Loss on disposal of property, plant and equipment | **(43)** | – |
| Exchange gain/(loss) | **67** | (17) |
| Interest income | **77** | 95 |
| Sundry income | **96** | 121 |
| | **202** | 211 |

## 8. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| Interest on: | | |
| Bank borrowings | **1,228** | 1,182 |

## 9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| Staff costs (including directors' emoluments) | | |
| Salaries and other employee benefits | **10,853** | 10,129 |
| Contributions to CPF | **664** | 573 |
| | **11,517** | 10,702 |
| Auditors' remuneration | **124** | 27 |
| Bad debts written off | **34** | – |
| Subcontracting labour | **175** | 557 |
| Listing expenses | **2,265** | – |

## 10. TAXATION

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The Singapore corporate income tax rate was 17% (2017: 17%) during the year. Income tax expense for the Group relates wholly to the profits of the subsidiaries, which were taxed at a corporate income tax rate of 17% in Singapore. Major components of income tax expense for the years ended 31 December 2018 and 2017 are:

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| **Current tax** | | |
| Singapore Corporate Income Tax ("CIT") | **489** | 595 |
| Over provision in respect of prior years | **(118)** | (5) |
| | **371** | 590 |

## 11. DIVIDENDS

The Company has not declared dividend since its incorporation.

The Board does not recommended any final dividend for the year ended 31 December 2018. (2018 interim dividend: approximately S$3,438,000 and 2017: approximately S$2,624,000)

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of approximately S$3,999,000 (2017: approximately S$5,511,000) and the weighted average number of ordinary shares of the Company in issue during the year calculated as follows:

| | **2018** | 2017 |
|---|---|---|
| **Weighted average number of ordinary shares** | | |
| Effect of capitalisation issue | **600,000,000** | 600,000,000 |

The weighted average number of ordinary shares used in the calculation of basic earnings per share for the year has been adjusted for 600,000,000 shares issued pursuant to the capitalisation issue which took place upon the completion of the share offer of the Company's shares, which were assumed to occur at 1 January 2017.

No dilutive earnings per share is presented as there was no potential dilutive ordinary shares in issue during both years.

## 13. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2018, the Group incurred capitalisation expenditure for food establishment and office equipment approximately S$158,000 (2017: approximately S$676,000).

## 14. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| Trade receivables *(Note)* | **107** | 184 |
| Other receivables | **425** | 187 |
| | **532** | 371 |

*Note:* During the year ended 31 December 2018, trade receivables had been written off amounted to approximately S$34,000 (2017: Nil).

Based on invoices date and net of impairment, ageing analysis of the Group's trade receivables at the end of reporting period is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| 0 to 30 days | **91** | 67 |
| 31 to 90 days | **14** | 29 |
| 91 to 180 days | **2** | 69 |
| 181 to 365 days | **–** | 19 |
| | **107** | 184 |

The Group allows an average credit period at 7 days to its customers.

## 15. TRADE PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| Trade payables | **2,766** | 2,845 |

Trade payables are non–interest bearing. Trade payables are generally settled within 15 days to 90 days credit terms.

As at 31 December 2018 and 2017, trade payables were denominated in Singapore dollars.

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

| | **2018** | 2017 |
|---|---|---|
| | ***S$'000*** | *S$'000* |
| 0 to 30 days | **2,754** | 1,556 |
| 31 to 90 days | **12** | 1,289 |
| | **2,766** | 2,845 |

## 16. SUBSEQUENT EVENTS

(a) On 1 February 2019, the authorised share capital of the Company was incurred from HK$380,000 divided into 38,000,000 shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each by creation of additional 9,962,000,000 shares of HK$0.01 each which rank pari passu in all respect with the existing shares.

(b) The Company was successfully listed on the Stock Exchange on 6 March 2019 by way of share offer of 20,000,000 public offer share and 180,000,000 placing shares respectively at the offer price of HK$0.75 per share, the net proceeds were approximately HK$110,000,000. The proceeds were proposed to be used to finance the implementation plan as set forth in the section headed "Future Plans and use of Proceeds" of the Company's Prospectus dated 21 February 2019.

## BUSINESS OVERVIEW AND PROSPECT

We are a food and beverage group based in Singapore with more than 15 years of experience in the ownership and operation of food centres and food street in Singapore. Currently, our business can be categorised into the (1) F&B Retail Business and (2) Outlet Management and Leasing Business.

As at the financial year ended at 31 December 2018, we operated and managed a total of 13 food establishments, being (i) 12 food centres, comprising nine non-air-conditioned food centres and three air-conditioned food centres; and (ii) one food street, under our Outlet Management and Leasing Business. Our food street is leased by our Group from an Independent Third Party, and comprises four food and beverage kiosks, of which three are operated by us under our F&B Retail Business. Of the 13 food establishments (12 food centres and one food street) managed by us under our Outlet Management and Leasing Business, one is managed on behalf of an Independent Third Party food centre owner. In addition, we have engaged an Independent Third Party operator to manage one of the food centres leased by us on our behalf, and we also leased three properties to Independent Third Parties.

The Group has successfully listed on Hong Kong Main Board on 6 March 2019 ("Listing Date"). The Board believes that Listing Proceed would facilitate Group future expansion and business growth.

## FINANCIAL REVEIW

### Revenue

Our Group recorded revenue increased of approximately S$1.0 million or 2.3% from approximately S$44.0 million to approximately S$ 45.0 million as at year ended 31 December 2018. Such increase was mainly driven by (i) an increase in the revenue from sale of cooked food, beverages and tobacco products with the opening of 12 food stalls in June 2017; and (ii) an increase in rental income from lease of premises to our tenants due to positive fixed rental revisions for leases renewed during the year and the purchase of a new investment property at 51 Ubi Avenue with full occupancy achieved in May 2017.

We derived our revenue from: (i) sale of cooked food, beverages and tobacco products; (ii) rental income from lease of premises to tenants; and (iii) provision of management, cleaning and utilities services.

The following table sets forth our revenue breakdown by the three categories of our revenue for the years end indicated:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***S$'000*** | ***%*** | *S$'000* | *%* |
| Sale of cooked food, beverages and tobacco products | **36,862** | **81.9** | 35,200 | 80.0 |
| Rental income from lease of premises to tenants | **5,673** | **12.6** | 5,291 | 12.0 |
| Provision of management, cleaning and utilities services | **2,460** | **5.5** | 3,484 | 8.0 |
| Total | **44,995** | **100.0** | 43,975 | 100.0 |

For the financial year ended 31 December 2017 and 2018, sale of cooked food, beverages and tobacco products was our largest revenue contributor, accounting for approximately 80.0% and 81.9% of our revenue respectively. Our revenue generated from sale of cooked food, beverages and tobacco products increased by approximately S$1.7 million, or 4.7%, from approximately S$35.2 million to approximately S$36.9 million. Such increase was mainly attributable to new mixed vegetable rice stalls since June 2017 such as (i) 116 Bukit Merah View #01-211; (ii) 56/58 Lorong 25A Geylang; (iii) 1 Maritime Square, Harbourfront Centre, #03-19/20/21; (iv) Block 215 Jurong East Street 21, #01-541; (v) Block 498 Jurong West Street 41, #01-426; and (vi) Block 476 Tampines Street 44, #01-207/209.

Our revenue generated from rental income from lease of premises to tenants increased approximately S$0.4 million or 7.2%, mainly due to positive rental revisions.

Our revenue generated from provision of management, cleaning and utilities services decreased approximately S$1.0 million, or 29.4% from approximately S$3.5 million to approximately S$2.5 million. The decrease in revenue was primarily attributable to our Group's decision to divert more resources towards our F&B Retail Business and away from our Outlet Management and Leasing Business. This was in line with the increase in the revenue from sale of cooked food, beverages and tobacco products as well as its contribution to our overall revenue.

Both revenue streams from lease premise and provision of management, cleaning and utilities services are under Outlet Management segment, while sales of cooked food, beverage and tobacco products is under our food and beverage stalls segment.

**Fair value gain of investment properties and other financial assets**

Our fair value gain of investment properties and other financial assets depend, to a large extent, on the economic conditions, the property market sentiment and other factors. Fair value of investment property is determined by Comparable Sales Method in Singapore. The fair value of the investment properties has been carried out by an independent valuer, Cushman & Wakefield VHS Pte. Ltd., who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued. While the fair value of financial assets were valued by Manulife (Singapore) Pte. Limited.

**Cost of inventories consumed**

Our cost of inventories consumed increased by approximately S$0.7 million, or 4.4%, from approximately S$16.5 million to approximately S$17.2 million, which was in line with the increase in revenue from sale of cooked food, beverages and tobacco products. Our cost of inventories consumed primarily represents the cost of purchases of food ingredients for our F&B Retail Business, such as fresh and frozen meat, seafood, vegetables, eggs, dried food, canned food and seasonings, as well as beverages, coffee powder and cigarettes.

**Staff costs**

Our staff costs increased by approximately S$0.8 million, or 7.6%, from approximately S$10.7 million to approximately S$11.5 million mainly due to the full impact of the higher salaries paid to existing staff as well as to attract new staff since 2017.

Our staff costs are the second largest component of our operating expenses and amounted to approximately S$10.7 million and S$11.5 million for the years ended 31 December 2017 and 31 December 2018, respectively, representing approximately 24.3% and 25.6% of our revenue for the respective periods.

**Property rentals and related expenses**

Our property rentals and related expenses primarily represents the rental paid for leasing of properties from Independent Third Parties for the operation of our food and beverage stalls, food centres and food street. Our property rentals and related expenses increased by approximately S$0.5 million, or 8.5%, from approximately S$5.7 million to approximately S$6.2 million. The increase is in line with the opening of 12 of our food stalls in June 2017.

**Management, cleaning and utilities expenses**

Our management, cleaning and utilities expenses decreased by approximately S$0.6 million, or 25.5%, from approximately S$2.3 million to approximately S$1.7 million. The decrease was mainly attributable to the (i) decrease in subcontracting fee as we were able to recruit the necessary staff and no longer require the temporary manpower from outsourced service providers; and (ii) decrease in licence fees as we incurred for the commencement of operations for the 12 food stalls opened in June 2017. That partially offset by the increase in other expenses due to an increase in the food centres' and food street's cleaning expenses as we undertook a comprehensive cleaning exercise to enhance the dining experience since the beginning of 2018.

## Other operating expenses

Our other operating expenses increased by approximately S$0.5 million, or 26.6%, from approximately S$1.9 million to approximately S$2.4 million. The increase was mainly attributable to (i) an increase in property tax and related expenses due to acquisition of the investment property at 51 Ubi Avenue in May 2017 and stamp duties incurred for the Reorganisation in preparation for the Listing; (ii) an increase in repairs and maintenance as we spent more on maintenance of our stalls, food centres and food street to enhance the dining experience for our customers in 2018; and (iii) an increase in travelling and professional fees due to higher compliance costs incurred in preparation for the listing, such as hiring an international professional firm for statutory audit and corporate services, as compared to a local professional firm previously.

## Finance costs

Our finance costs marginal increased, which primarily attributable to an increase in interest rates and quantum of borrowing size as at the end of financial year 2018.

## Taxation

Our income tax expense decreased by approximately S$0.2 million or 37.1%, from approximately S$0.6 million to approximately S$0.4 million. The effective tax rate reduced from 9.7% in year 2017 to 8.5% in year 2018. These decreases were primarily due to (i) a decrease in taxable profits of our Group, due to higher fair value gain of investment properties and partially offset by listing expenses as listing expenses are non-tax deductible for corporate income tax purpose and (ii) Group relief can be utilised after Reorganisation, which means tax losses at entity level can be transferred from loss making entities to profitable entities with same financial year ended.

## Profit for the year

Our profit after tax decreased by approximately S$1.5 million, or 27.4% from approximately S$5.5 million to approximately S$4.0 million, which was largely due to one-off listing expenses and offset by increased fair value gain of investment properties.

## Borrowings

As at 31 December 2018, the Group did not enter any new arrangement beside those disclosed in the prospectus of the Group dated on 21 February 2019 (the "**Prospectus**")

## Capital commitment and Significant Investments held

As at 31 December 2018, the Group was in the process of acquiring two new food centers, details of properties and way of acquiring are set out in both headed "Business — Business strategy" and headed "Future plans and use of proceeds" in the Prospectus. As at this report date, one of the properties — 150 South Bridge Road has been successful acquired according to the Prospectus.

## DIVIDEND

The Board does not recommend any final dividend for the year ended 31 December 2018. (2018 interim dividend: approximately S$3,438,000 and 2017: approximately S$2,624,000)

## LIQUIDITY AND FINANCIAL RESOURCES

The overall increase of approximately S$2.2 million or 134.7% from approximately S$1.7 million to approximately S$3.9 million as at 31 December 2018 was also due to the amount due from a shareholder has been offset by interim dividend. Despite the net current liabilities positions as at 31 December 2018, our Group had sufficient financial resources to run our business operation and fulfil our obligations as supported by our strong operating cash inflows.

As at 6 March 2019, The Group was listed on the Stock Exchange receiving approximate net proceeds of HK$110.0 million. Our Directors believe that our Group will continue to have sufficient financial resources with better financial position for our business operations going forward.

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The issued shares were initially listed on Main Board of the Stock Exchange on 6 March 2019 and 200,000,000 ordinary shares were issued at HK$0.75 per offer share on 6 March 2019 (the "Share Offer") in connection with the listing as detailed in the Prospectus and the announcement of the Company dated 5 March 2019 in relation to, among others, the allotment results of the Share Offer. After deducting related listing expenses, the net proceeds of the Share Offer were approximately HK$110.0 million.

## CORPORATE GOVERNANCE

The Company is committed to ensuring and maintaining high standards of corporate governance.

During the financial year of 2018, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, except for deviations from code provision A.2.1 of the CG Code, the reasons for which are explained below.

- Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the financial year of 2018, Mr. Chu Chee Keong was the Chairman of the Board and the Chief Executive Officer of the Company. This deviates from code provision A.2.1 of the CG Code which requires that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Board is of the opinion that it is appropriate and in the best interests of the Company that Mr. Chu should hold these offices. The Board believes that the current arrangements are the most effective arrangements for purposes of monitoring, assessing and managing the Group's business performance, and are in the best interests of the Company and its shareholders.

The Board will continue to review and further improve the Company's corporate governance practices and standards, so as to ensure that its business activities and decision-making processes are regulated in a proper and prudent manner.

## DIRECTORS' SECURITIES TRANSACTIONS

The directors (the "Directors") of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Listing Rules as the code of practice for carrying out securities transactions by the Company's directors. After specific enquiry with all members of the Board, the Company confirms that all Directors have fully complied with the relevant requirements stipulated in the above-mentioned rules during the reporting period.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely Mr. Mah Seong Kung, (Chairman of the Audit Committee), Mr. Loh Eu Tse Derek and Mr. Wong Loke Tan. The Audit Committee has reviewed audited financial statements for the year ended 31 December 2018.

By Order of the Board
**K2 F&B Holdings Limited**
**Chu Chee Keong (Zhu Zhiqiang)**
*Chairman*

Hong Kong, 29 March 2019

As at the date of this announcement, the directors of the Company are:

Executive Directors:
Mr. Chu Chee Keong (Zhu Zhiqiang)
Ms. Leow Poh Hoon (Liao Baoyun)

Non–executive Director:
Ms. Chu Pek Si (Zhu Peishi)

Independent non–executive Directors:
Mr. Wong Loke Tan
Mr. Loh Eu Tse Derek
Mr. Mah Seong Kung