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K2 F&B Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2108)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of Directors (the “Board”) of K2 F&B Holdings Limited (the “Company”) is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 (the “Reporting Period”) together with the unaudited comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		S\$'000	S\$'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
Revenue	6	21,514	22,364
Fair value gain of investment properties		–	200
Other gains and losses, net		48	164
Cost of inventories consumed		(8,224)	(8,618)
Staff costs		(6,085)	(5,479)
Property rentals and related expenses		(2,603)	(3,156)
Management, cleaning and utilities expenses		(1,159)	(1,020)
Depreciation		(524)	(195)
Listing expenses	8	(2,125)	(688)
Other operating expenses		(1,153)	(872)
Finance costs	7	(652)	(625)
(Loss)/profit before taxation	8	(963)	2,075
Taxation	9	(203)	(270)
(Loss)/profit for the period		(1,166)	1,805
Other comprehensive income, net of tax		–	–
(Loss)/profit and total comprehensive (loss)/income for the period		(1,166)	1,805
(Loss)/earnings per share			
Basic and diluted (Singapore cents)	11	(0.16)	0.30

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 S\$'000 (Unaudited)	31 December 2018 S\$'000 (Audited)
Non-current assets			
Investment properties		99,151	83,650
Property, plant and equipment	12	4,930	2,118
Deposits paid		225	225
Right-of-use assets		1,317	–
		<u>105,623</u>	<u>85,993</u>
Current assets			
Inventories		158	161
Trade and other receivables	13	257	532
Prepayments and deposits paid		551	3,243
Other financial assets		668	664
Pledged bank deposit		15	15
Cash and cash equivalents		17,350	4,911
		<u>18,999</u>	<u>9,526</u>
Current liabilities			
Trade payables	14	2,505	2,766
Accruals and other payables		818	2,747
Deposits received and receipts in advance		777	786
Borrowings	15	2,828	6,458
Tax payables		491	674
Right-of-use liabilities		672	–
		<u>8,091</u>	<u>13,431</u>
Net current assets/(liabilities)		<u>10,908</u>	<u>(3,905)</u>
Total assets less current liabilities		<u>116,531</u>	<u>82,088</u>
Non-current liabilities			
Borrowings	15	56,804	44,934
Deposits received		259	259
Right-of-use liabilities		650	–
		<u>57,713</u>	<u>45,193</u>
Net assets		<u>58,818</u>	<u>36,895</u>
Capital and reserves			
Share capital	16	1,381	–*
Reserves		57,437	36,895
Total equity		<u>58,818</u>	<u>36,895</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June	
	2019	2018
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	1,441	631
Net cash used in investing activities	(8,057)	(89)
Net cash generated from/(used in) financing activities	19,055	(941)
Cash and cash equivalents at the beginning of the period	4,911	6,415
Cash and cash equivalents at the end of the period	17,350	6,016

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share Capital S\$'000	Share Premium S\$'000	Other Reserves S\$'000	Retained earnings S\$'000	Total S\$'000
As at 1 January 2018 (Audited)	—*	—	2,790	33,544	36,334
Dividend	—	—	—	(3,438)	(3,438)
Profit and total comprehensive income for the period	—	—	—	1,805	1,805
As at 30 June 2018 (Unaudited)	—*	—	2,790	31,911	34,701
As at 1 January 2019 (Audited)	—	—	2,790	34,105	36,895
Issue new shares pursuant to the Capitalisation Issue <i>Note 16</i>	1,036	(1,036)	—	—	—
Issue new shares pursuant to the Share Offer	345	22,744	—	—	23,089
Loss and total comprehensive loss for the period	—	—	—	(1,166)	(1,166)
As at 30 June 2019 (Unaudited)	1,381	21,708	2,790	32,939	58,818

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 “Listing Date”).

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

Details of the Reorganisation are set out in the section headed “History, Reorganisation and Group Structure” to the prospectus of the Company dated 21 February 2019.

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 became 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. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 (the “Interim Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which is a collective term that includes all applicable individual IFRSs, International Accounting Standards (“IASs”) and Interpretations (the “Interpretations”) issued by the International Accounting Standard Board (the “IASB”), accounting principles generally accepted in International and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Listing Rules. The Interim Financial Statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period and the adoption of new and amended standards as set out below.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

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

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS IAS 23
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

Other than as explained below regarding the impact of IFRS 16 Leases, Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures and IFRIC-Int 23 Uncertainty over Income Tax Treatments, the new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information.

Adoption of IFRS 16

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities and other payables. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying IAS 40.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

(a) The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) S\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	1,651
Decrease in prepaid land lease payments	<u>—</u>
Increase in total assets	<u><u>1,651</u></u>
Liabilities	
Increase in lease liabilities	<u>1,651</u>
Increase in total liabilities	<u><u>1,651</u></u>

(b) Nature of the effect of adoption of IFRS 16

The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	Increase/ (decrease) S\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	
Weighted average incremental borrowing rate as at 1 January 2019	3.35%
Discounted operating lease commitments as at 1 January 2019	<u>1,651</u>
Lease liabilities as at 1 January 2019	<u><u>1,651</u></u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

(c) Amounts recognised in the statement of financial position and profit or loss

	Right-of-use assets S\$'000 (Unaudited)	Lease liabilities S\$'000 (Unaudited)
As at 1 January 2019	1,651	1,651
Additions	–	–
Depreciation charge	(334)	–
Interest expense	–	25
Payments	–	(354)
As at 30 June 2019	<u>1,317</u>	<u>1,322</u>

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.

For the six months ended 30 June 2019

	Outlet Management S\$'000 (Unaudited)	Food and beverage stalls S\$'000 (Unaudited)	Unallocated S\$'000 (Unaudited)	Total S\$'000 (Unaudited)
Revenue				
Revenue from contracts with customers:				
Recognised at a point in time	–	17,541	–	17,541
Recognised over time	1,206	–	–	1,206
	<u>1,206</u>	<u>17,541</u>	<u>–</u>	<u>18,747</u>
Revenue from other sources:				
Rent income	2,767	–	–	2,767
	<u>2,767</u>	<u>–</u>	<u>–</u>	<u>2,767</u>
Total revenue	<u><u>3,973</u></u>	<u><u>17,541</u></u>	<u><u>–</u></u>	<u><u>21,514</u></u>
Segment profit/(loss)	<u><u>1,308</u></u>	<u><u>1,197</u></u>	<u><u>(3,468)</u></u>	<u><u>(963)</u></u>
Other segment information:				
Exchange losses			(30)	(30)
Finance costs	(550)	–	(102)	(652)
Depreciation	(370)	(105)	(49)	(524)
Staff costs	(4,811)	–	(1,274)	(6,085)
Property rentals and related expenses	(1,921)	(682)	–	(2,603)
Interest income	–	–	44	44
	<u>–</u>	<u>–</u>	<u>44</u>	<u>44</u>
Assets and liabilities:				
Segment assets	<u>104,093</u>	<u>2,250</u>	<u>18,279</u>	<u>124,622</u>
Segment liabilities	<u>55,780</u>	<u>1,753</u>	<u>8,271</u>	<u>65,804</u>

For the six months ended 30 June 2018

	Outlet Management S\$'000 (Unaudited)	Food and beverage stalls S\$'000 (Unaudited)	Unallocated S\$'000 (Unaudited)	Total S\$'000 (Unaudited)
Revenue				
Revenue from contracts with customers:				
Recognised at a point in time	6,926	11,524	–	18,450
Recognised over time	1,194	–	–	1,194
	<u>8,120</u>	<u>11,524</u>	<u>–</u>	<u>19,644</u>
Revenue from other sources:				
Rent income	2,720	–	–	2,720
	<u>2,720</u>	<u>–</u>	<u>–</u>	<u>2,720</u>
Total revenue	<u>10,840</u>	<u>11,524</u>	<u>–</u>	<u>22,364</u>
Segment profit/(loss)	<u>2,467</u>	<u>576</u>	<u>(968)</u>	<u>2,075</u>
Other segment information:				
Fair value gain from investment properties	200	–	–	200
Exchange gain	14	–	–	14
Bad debts written off	(34)	–	–	(34)
Finance costs	(484)	–	(141)	(625)
Depreciation	(31)	(102)	(62)	(195)
Staff costs	(4,654)	–	(825)	(5,479)
Property rentals and related expenses	(2,579)	(577)	–	(3,156)
Interest income	10	–	60	70
	<u>10</u>	<u>–</u>	<u>60</u>	<u>70</u>
Assets and liabilities:				
Segment assets	<u>89,212</u>	<u>1,942</u>	<u>1,825</u>	<u>92,979</u>
Segment liabilities	<u>44,725</u>	<u>2,041</u>	<u>11,562</u>	<u>58,328</u>

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

	2019 S\$'000 (Unaudited)	2018 S\$'000 (Unaudited)
Revenue from contract with customers		
Revenue recognised at point in time		
Sales of cooked food, beverage and tobacco products	17,541	18,450
Revenue recognised over time		
Provision of management, cleaning and utilities services	1,206	1,194
	<u>18,747</u>	<u>19,644</u>
Revenue from other sources		
Rental income from leases of premises to tenants	2,767	2,720
	<u>21,514</u>	<u>22,364</u>

7. FINANCE COSTS

	2019 S\$'000 (Unaudited)	2018 S\$'000 (Unaudited)
Interest on:		
Bank borrowings	627	625
Lease liabilities	25	–
	<u>652</u>	<u>625</u>

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging:

	2019 S\$'000 (Unaudited)	2018 S\$'000 (Unaudited)
Staff costs (including directors' emoluments)		
Salaries and other employee benefits	5,702	5,136
Contributions to CPF	383	343
	<u>6,085</u>	<u>5,479</u>
Bad debts written off	–	34
Subcontracting labour	–	94
Listing expenses	2,125	688
	<u>2,125</u>	<u>688</u>

9. 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% (2018: 17%) during the period. 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 six months ended 30 June 2019 and 2018 are:

	2019 S\$'000 (Unaudited)	2018 S\$'000 (Unaudited)
Current tax		
Singapore Corporate Income Tax ("CIT")	189	290
Under/(Over) provision in respect of prior years	14	(20)
	<u>203</u>	<u>270</u>

10. DIVIDENDS

The Board does not declare the payment of an interim dividend for the six months ended 30 June 2019. (2018 interim dividend: approximately S\$3,438,000).

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss for the six months period ended 30 June 2019 of approximately S\$1,166,000 (2018: profit S\$1,805,000) and the weighted average number of ordinary shares of the Company in issue during the year calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Effect of issue at date of incorporation	100	100
Effect of capitalization issue	599,999,900	599,999,900
Effect of share offer	129,281,768	—
	<u>729,281,768</u>	<u>600,000,000</u>

Diluted earnings per share were same as the basic earnings per share as there was no potential dilutive ordinary shares in issue during both periods.

12. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group's acquired property, plant and equipment at cost of approximately S\$3,003,000 and capitalised right-to-use of assets approximately \$1,651,000 (six months ended 30 June 2018: approximately S\$89,000).

As at 30 June 2019, property, plant and equipment with carrying amount of approximately S\$4,930,000 (31 December 2018: S\$2,118,000) were secured for the secured mortgage loan as below mentioned in Note 15.

13. TRADE AND OTHER RECEIVABLES

	30 June 2019 S\$'000 (Unaudited)	31 December 2018 S\$'000 (Audited)
Trade receivables (<i>Note</i>)	134	107
Other receivables	123	425
	<u>257</u>	<u>532</u>

Note: As at 30 June 2019, trade receivables hadn't been written off amount (2018: approximately S\$34,000).

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:

	30 June 2019 S\$'000 (Unaudited)	31 December 2018 S\$'000 (Audited)
0 to 30 days	78	91
31 to 90 days	48	14
91 to 180 days	8	2
181 to 365 days	—	—
	<u>134</u>	<u>107</u>

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

14. TRADE PAYABLES

	30 June 2019 S\$'000 (Unaudited)	31 December 2018 S\$'000 (Audited)
Trade payables	<u>2,505</u>	<u>2,766</u>

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

As at 30 June 2019 and 31 December 2018, 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:

	30 June 2019 S\$'000 (Unaudited)	31 December 2018 S\$'000 (Audited)
0 to 30 days	1,289	2,754
31 to 90 days	1,216	12
	<u>2,505</u>	<u>2,766</u>

15. BANK BORROWINGS

	30 June 2019 S\$'000 (Unaudited)	31 December 2018 S\$'000 (Audited)
Secured mortgage loans	<u>59,632</u>	<u>51,392</u>

Note: The bank borrowing was secured by the pledge of certain Group's property, plant and equipment and investment property which carries weighted average effective interest rate at 2.35% (31 December 2018: 2.41%) per annum.

16. SHARE CAPITAL

The authorised and issued share capital of the Company is as follows:

Authorised share capital:	<i>HK\$</i>
<u>10,000,000,000</u> Shares	<u>100,000,000</u>
Shares in issue or to be issued, fully paid or credited as fully paid:	<i>HK\$</i> <i>S\$'000</i>
100 Shares in issue	1 –
599,999,900 New Shares to be issued pursuant to Capitalisation Issue ⁽ⁱ⁾	5,999,999 1,036
200,000,000 New Shares to be issued pursuant to the Share Offer ⁽ⁱⁱ⁾	2,000,000 345
Total	
<u>800,000,000</u> Shares	<u>8,000,000 ⁽ⁱⁱⁱ⁾</u> <u>1,381</u>

(i) Pursuant to the resolutions in writing of the sole Shareholder passed on 1 February 2019, subject to the share premium account of the Company being credited as a result of the Listing, the Directors were authorised to allot and issue a total of 599,999,900 new Shares to the existing Shareholders, credited as fully paid at par by way of capitalisation of the sum of HK\$5,999,999 standing to the credit of the share premium account of the Company, and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the Shares in issue (save for the right to participate in the Capitalisation Issue).

(ii) During the six months period ended 30 June 2019, the Company issued 200,000,000 ordinary shares of par value HK\$0.01 each pursuant to the Listing at the price of HK\$0.75 per ordinary share as at 6 March 2019.

(iii) S\$ 1 = HK\$5.79 as at 6 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND PROSPECT

The Group is 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, the business can be categorised into the (1) F&B Retail Business and (2) Outlet Management and Leasing Business.

Under the F&B Retail Business, the Group is currently operate and manage a total of 32 food stalls and 13 beverage stalls all throughout Singapore, either in owned/leased food centres or stalls leased from third party food centres. The Group food stalls specialises mainly in Mixed Vegetables Rice stalls, Roasted Meat and Chicken Rice stalls and Zi Char stalls.

Under the Outlet Management and Leasing Business, the Group currently operated and managed a total of 14 owned and leased food establishments, being (i) 13 food centres, comprising eight non-air-conditioned food centres, four air-conditioned food centres and one food street; and (ii) one is managed on behalf of an Independent Third Party food centre owner.

The Group has successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 March 2019 (“Listing Date”). The Board believes that Listing Proceed would facilitate the Group future expansion and business growth.

FINANCIAL REVIEW

Revenue

The Group recorded revenue decreased of approximately S\$0.9 million or 3.8% from approximately S\$22.4 million to approximately S\$ 21.5 million as at 30 June 2019. Such decrease was mainly driven by (i) an decrease in the revenue from sale of cooked food, beverages and tobacco products with the closed 5 food stalls by June 2019; and (ii) an increase in rental income from lease of premises to the tenants due to positive fixed rental revisions for leases renewed during the Reporting Period.

The Group derived the 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 the revenue breakdown by the three categories of the revenue for the six months end indicated:

	For the period ended 30 June			
	2019		2018	
	S\$'000	%	S\$'000	%
Sale of cooked food, beverages and tobacco products	17,541	81.5	18,450	82.5
Rental income from lease of premises to tenants	2,767	12.9	2,720	12.2
Provision of management, cleaning and utilities services	1,206	5.6	1,194	5.3
Total	<u>21,514</u>	<u>100.0</u>	<u>22,364</u>	<u>100.0</u>

For the financial period ended 30 June 2019 and 2018, sale of cooked food, beverages and tobacco products was the largest revenue contributor, accounting for approximately 81.5% and 82.5% of the Group revenue respectively. Revenue generated from sale of cooked food, beverages and tobacco products decreased by approximately S\$1.0 million, or 5.4%, from approximately S\$18.5 million to approximately S\$17.5 million. Such decrease was attributable to five mixed vegetable rice stalls have not been renewed successfully at reasonable rent from independent parties.

Furthermore, the Group has soft opened the Simei outlet in April 2019 and 150 South Bridget outlet in May 2019. However, the positive impact of revenue has been offset by one of the top perform outlets, 168 Bedok South has not been renew successfully on due date and taken back by the landlord for his own use.

The Management is looking to rent directly from government or buy a food outlet to reduce such lease renewal risk with better cost control.

The revenue generated from rental income from lease of premises to tenants and provision of management, cleaning and utilities services marginal increased mainly due to positive rental revisions.

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

Fair value gain of investment properties

The fair value gain of investment properties 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.

The Group did the valuation during first half of year 2018 due to the Listing requirement. While the Group did not conduct any valuation during first half of year 2019 but expected to do it at end of year 2019.

Cost of inventories consumed

The cost of inventories consumed decreased by approximately S\$0.4 million, or 4.6%, from approximately S\$8.6 million to approximately S\$8.2 million, which was in line with the decrease in revenue from sale of cooked food, beverages and tobacco products. The cost of inventories consumed primarily represents the cost of purchases of food ingredients for the F&B Retail Business, consisting fresh and frozen meat, seafood, vegetables, eggs, dried food, canned food and seasonings, as well as beverages, coffee powder and cigarettes.

Staff costs

The staff costs increased by approximately S\$0.6 million, or 11.1%, from approximately S\$5.5 million to approximately S\$6.1 million due to (i) one-off bonus given to staff in view of the successful Listing; and (ii) annual staff increment.

The staff costs are the second largest component of the operating expenses and amounted to approximately S\$5.5 million and S\$6.1 million for the six months ended 30 June 2018 and 30 June 2019, respectively, representing approximately 24.5% and 28.3% of the revenue for the respective periods.

Property rentals and related expenses

The property rentals and related expenses primarily represents the rental paid for leasing of properties from Independent Third Parties for the operation of the short-term food and beverage stalls, food centers and food street. The property rentals and related expenses decreased by approximately S\$0.6 million, or 18.8%, from approximately S\$3.2 million to approximately S\$2.6 million. The decrease is in line with the revenue was mainly due to five food stalls that located in food centers managed by independent parties and one food outlet have not been renew successfully on the due date. In additional, some of more than 12 months lease food outlets and stalls have been capitalised according to IFRS 16 in 2019.

Management, cleaning and utilities expenses

The management, cleaning and utilities expenses increased by approximately S\$0.1 million, or 13.6%, from approximately S\$1.0 million to approximately S\$1.1 million. The increase was mainly attributable to the increased utilities rate and tariffs imposed. The loss is offset by the decrease number of stalls operation.

Listing expenses

The Listing expenses primarily consist of fees paid to professional parties, underwriting fee and commission in relation to the Listing.

Other operating expenses

The other operating expenses primarily comprise advertisement and promotion, donation, local legal and compliance and travelling expenses. The other operation expenses increased approximately S\$0.3 million or 32.2% from approximately S\$0.9 million to approximately S\$1.2 million, mainly attributable to (i) the donation of HK\$1 million to The Community Chest of Hong Kong before Listing; and (ii) the travelling expenses for the staff to attend the Listing ceremony.

Finance costs

The finance costs increased, which attributable to two new properties' loan to complete 101 Yishun and 150 South Bridge acquisition as well as implied interest on lease liabilities according to IFRS 16. The loss is offset by optimized debt structure with reduced interest rate.

LIQUIDITY AND FINANCIAL RESOURCES

The net current liabilities position of S\$3.9 million as at 31 December 2018 has been improved to net current assets position of S\$11.6 million as at 30 June 2019. Not only due to the cash increase from Listing proceeds, but also debts restructure change short-term debts to long-term debts.

Use of Proceeds

	Net Proceeds allocated (HK\$'000)	Approx % of Net of Proceeds %	Utilised as at 30 June 2019 (HK\$'000)	Balance as at 30 June 2019 (HK\$'000)
1. Purchase of outlets				
a. 101 Yishun	34,760	32%	(34,760)	–
b. 150 South Bridge Road	5,610	5%	(5,610)	–
2. Purchase of next food outlets				
a. Purchase price/Renovation	35,530	32%	–	35,530
3. Repayment of bank loan	11,110	10%	–	11,110
4. Renovation of existing shops	5,610	5%	–	5,610
5. Additional IT				
a. IT Infra upgrade	1,870	2%	–	1,870
b. Touch screen ordering and Epayment	4,400	4%	–	4,400
Sub-total	<u>98,890</u>	<u>90%</u>	<u>(40,370)</u>	<u>58,520</u>
6. General working capital	<u>11,110</u>	<u>10%</u>	<u>(11,110)</u>	<u>–</u>
Total	<u><u>110,000</u></u>	<u><u>100%</u></u>	<u><u>(51,480)</u></u>	<u><u>58,520</u></u>

Borrowings

As at 30 June 2019, the borrowings of approximately S\$59,632,000 (31 December 2018: S\$51,392,000) were secured by the pledge of certain Group's (i) property, plant and equipment; (ii) investment properties; (iii) future rental income, (iv) personal guarantee of Mr. Chu and (v) corporate guarantee of two subsidiaries of the Group, which carries weighted average of effective interest rate approximately 2.35%.

Capital commitment and significant investments held

As at 30 June 2019, the Group has no capital commitment and significant investments held.

Gearing ratio

Gearing ratio is calculated based on interest-bearing liabilities divided by total equity as at the respective period/year end and multiple by 100%. Interest-bearing liabilities mainly comprised of bank borrowings and lease liabilities.

As at 30 June 2019, gearing ratio is approximately 103.6%, decreased from approximately 139.3% as at 31 December 2018. The change of gearing ratio was attributable to increase share capital and share premium upon the Listing.

Foreign Currency Risks

Most of the Group's revenues and operating costs were denominated in Singapore dollars. Except for the bank deposits denominated in HK dollars, the Group's operating cash flow or liquidity is not directly subject to any other significant exchange rate fluctuations. The management closely monitors foreign currency exposure and will consider hedging significant foreign currency exposure when needed.

Pledge of Assets

As at 30 June 2019, the Group pledged its property, plant and equipment as well as investment properties amounting to approximately S\$103,408,000 (31 December 2018: approximately S\$85,357,000) to secure bank borrowings of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the group's business to which the company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the six months period ended 30 June 2019.

CONNECTED TRANSACTIONS

The Group had no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the six months period ended 30 June 2019.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

The Group had not provided any financial assistance and guarantee during the six months period ended 30 June 2019.

COMPLIANCE ADVISER’S INTERESTS

As at the date of this announcement, save and except for the compliance adviser’s agreement entered into between the Company and HeungKong Capital Limited (the “Compliance Adviser”), neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is require to be notified to the Group pursuant to Rule 3A.23 of the Listing Rules.

CORPORATE GOVERNANCE

For the six months ended 30 June 2019, the Company has adopted, applied and complied with the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules. Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and performed by different individuals. Under the current organization structure of the Company, Mr. Chu is the Chairman of the Board and the Chief Executive Officer. With extensive experience in the food and beverage industry, the Board considered that vesting the roles of Chairman and Chief Executive Officer in the same person is beneficial to the business prospects and management of the Group. The check and balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independent element in its composition. Save as disclosed herein, the Company has complied with the code provisions as set out in the Code for the six months ended 30 June 2019. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

HUMAN RESOURCES

As of 30 June 2019, the Group had about 349 employees (31 December 2018: 360). The remuneration policy and package of the Group’s employees are structured in accordance with market terms and statutory requirements where appropriate. In addition, the Group also provides other staff benefits such as mandatory pension funds, insurance and medical benefits to motivate and reward employees at all levels to achieve the Group’s business performance targets.

INTERIM DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 30 June 2019.

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 six months period ended 30 June 2019 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company, comprising all the independent non-executive Directors, namely Mr. Mah Seong Kung (Chairman), Mr. Loh Eu Tse Derek and Mr. Wong Loke Tan, has reviewed with the management the accounting principles and policies adopted by the Group and the unaudited interim results of the Group for the six months ended 30 June 2019.

PUBLICATION OF 2019 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Interim Report for the six months ended 30 June 2019 will be despatched to shareholders and will be published on the websites of the Exchange (www.hkex.com.hk) as well as the website of the Company (www.fuchangroup.com) in due course.

APPRECIATIONS

On behalf of the Board, I would like to extend our sincere thanks to our Shareholders, business partners and customers for their continuous support to the Group. I would also extend my gratitude and appreciation to all the Directors, management and staff for their hard work and dedication throughout the Reporting Period.

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

Singapore, 28 August 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