

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2020

The board of directors (the “**Board**”) of K2 F&B Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2019 (“**1H2019**”), which have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>S\$'000</i>	<i>S\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	5	16,208	21,514
Other gains and losses, net		358	48
Cost of inventories consumed		(6,274)	(8,224)
Staff costs		(4,426)	(6,085)
Property rentals and related expenses		(1,489)	(2,603)
Management, cleaning and utilities expenses		(730)	(1,159)
Depreciation on property, plant and equipment		(247)	(190)
Depreciation on right-of-use assets		(557)	(334)
Listing expenses	7	–	(2,125)
Other operating expenses		(946)	(1,153)
Finance costs	6	(804)	(652)
Profit/(loss) before taxation	7	1,093	(963)
Taxation	8	(107)	(203)
Profit/(loss) for the period		986	(1,166)
Other comprehensive income, net of tax		–	–
Profit/(loss) and total comprehensive income/(loss) for the period		986	(1,166)
Earnings/(loss) per share			
Basic and diluted (Singapore cents)	10	0.12	(0.16)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Audited)
	Notes		
Non-current assets			
Investment properties		127,146	104,300
Property, plant and equipment	11	6,615	6,747
Deposits paid		398	320
Right-of-use assets		1,062	1,619
		<u>135,221</u>	<u>112,986</u>
Current assets			
Inventories		178	152
Trade and other receivables	12	529	1,064
Prepayments and deposits paid		1,271	1,979
Other financial assets		711	676
Pledged bank deposit		1,015	15
Cash and cash equivalents		10,483	11,688
		<u>14,187</u>	<u>15,574</u>
Current liabilities			
Trade payables	13	1,624	2,464
Accruals, other payables and deposit received		2,337	2,752
Borrowings	14	8,816	3,535
Lease liabilities		936	1,072
Tax payables		192	222
		<u>13,905</u>	<u>10,045</u>
Net current assets		<u>282</u>	<u>5,529</u>
Total assets less current liabilities		<u>135,503</u>	<u>118,515</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	S\$'000	S\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Borrowings	14	68,759	52,616
Deposits received		481	189
Lease liabilities		135	568
		69,375	53,373
Net assets		66,128	65,142
Capital and reserves			
Share capital	15	1,381	1,381
Reserves		64,747	63,761
Total equity		66,128	65,142

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW*For the six months ended 30 June 2020*

	Six months ended 30 June	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	2,705	1,441
Net cash used in investing activities	(6,201)	(8,057)
Net cash generated from financing activities	2,291	19,055
Cash and cash equivalents at the beginning of the period	11,688	4,911
Cash and cash equivalents at the end of the period	10,483	17,350

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Share capital S\$'000	Share premium S\$'000	Other reserves S\$'000	Retained earnings S\$'000	Total S\$'000
As at 1 January 2019 (Audited)	–	–	2,790	34,105	36,895
Issue new shares pursuant to the capitalisation issue	1,036	(1,036)	–	–	–
Issue new shares pursuant to the share offer	345	25,637	–	–	25,982
Transaction costs attributable to issue of new shares	–	(2,893)	–	–	(2,893)
Loss and total comprehensive loss for the period	–	–	–	(1,166)	(1,166)
As at 30 June 2019 (Unaudited)	<u>1,381</u>	<u>21,708</u>	<u>2,790</u>	<u>32,939</u>	<u>58,818</u>
As at 1 January 2020 (Audited)	1,381	21,708	2,790	39,263	65,142
Profit and total comprehensive income for the period	–	–	–	986	986
As at 30 June 2020 (Unaudited)	<u>1,381</u>	<u>21,708</u>	<u>2,790</u>	<u>40,249</u>	<u>66,128</u>

Note: Other reserves of the Group represent reserves that arose pursuant to the reorganisation.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

K2 F&B Holdings Limited was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 March 2018. Its parent company is Strong Oriental Limited (“**Strong Oriental**”) which is incorporated in the British Virgin Islands. The shares of the Company have been listed on the Main Board (the “**Main Board**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 6 March 2019. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The headquarters and principal place of business in Singapore is located 51 Ubi Avenue 1, #02-17/18 Paya Ubi Industrial Park, Singapore 408933.

The Company is an investment holding company. Its subsidiaries are principally engaged in leasing, and outlet and stall management. The unaudited condensed consolidated financial statements are presented in Singapore dollars (“**S\$**”), which is the functional currency of the Company. All values are rounded to the nearest thousand (“**S\$’000**”), except when otherwise indicated.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the Reporting Period (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 internationally and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (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 report. Accordingly, this announcement is to be read in conjunction with the annual report for the year ended 31 December 2019.

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.

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

a. New standards and revised existing standards adopted by the Group

Application of new and amendments to IFRSs

In the Reporting Period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and a number of amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s unaudited condensed consolidated financial statements:

IFRS 3 (Amendments)	Definition of a Business
IFRS 9, IAS 39 and IFRS 7 (Amendments)	Interest Rate Benchmark Reform
IAS 1 and IAS 8 (Amendments)	Definition of Material

Early adoption of amendments to IFRSs

IFRS 16 (Amendments)	COVID-19 Related Rent Concessions
----------------------	-----------------------------------

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRSs and the amendments to IFRSs in the Reporting Period had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

IFRS 16 (Amendments) COVID-19-Related Rent Concession

For rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

The Group has applied the practical expedient to rent concession that meet all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has early adopted the amendment in the current interim period. The application has no impact to the opening retained earnings at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of approximately S\$236,000 in the profit or loss for the Reporting Period.

4. OPERATING SEGMENT INFORMATION

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

a. Outlet management

The business segment of outlet management operation involves the leasing of food establishment premises to tenants and the provision of management, cleaning and utilities services to tenants.

b. Food and beverage stalls

The business segment of food and beverage stalls operation primarily involves the retailing of beverage, tobacco products, and cooked food directly to consumers such as mixed vegetable rice, zi char, roasted meat and chicken rice located in food establishments operated and managed by the Group and third parties.

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 unaudited condensed consolidated financial statements.

For the six months ended 30 June 2020

	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	–	13,026	–	13,026
Recognised over time	1,475	–	–	1,475
	1,475	13,026	–	14,501
Revenue from other sources:				
Rent income	3,439	–	–	3,439
	4,914	13,026	–	17,940
Adjustment and elimination	(1,732)	–	–	(1,732)
Total revenue	3,182	13,026	–	16,208
Segment profit/(loss)	547	1,346	(800)	1,093
Other segment information:				
Exchange gains	–	–	281	281
Finance costs	(784)	–	(20)	(804)
Depreciation on property, plant and equipment	(100)	(89)	(58)	(247)
Depreciation on right-of-use assets	(211)	(346)	–	(557)
Staff costs	(3,294)	–	(1,132)	(4,426)
Property rentals and related expenses	(997)	(492)	–	(1,489)
Interest income	–	–	19	19
Assets and liabilities:				
Segment assets	136,719	5,843	6,846	149,408
Segment liabilities	73,987	2,972	6,321	83,280

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	1,700	–	–	1,700
	1,700	17,541	–	19,241
Revenue from other sources:				
Rent income	5,008	–	–	5,008
	6,708	17,541	–	24,249
Adjustment and elimination	(2,735)	–	–	(2,735)
Total revenue	3,973	17,541	–	21,514
Segment profit/(loss)	1,308	1,197	(3,468)	(963)
Other segment information:				
Exchange losses	–	–	(30)	(30)
Finance costs	(550)	–	(102)	(652)
Depreciation on property, plant and equipment	(36)	(105)	(49)	(190)
Depreciation on right-of-use assets	(334)	–	–	(334)
Staff costs	(4,811)	–	(1,274)	(6,085)
Property rentals and related expenses	(1,921)	(682)	–	(2,603)
Interest income	–	–	44	44
Assets and liabilities:				
Segment assets	104,093	2,250	18,279	124,622
Segment liabilities	55,780	1,753	8,271	65,804

Information about major customers

No single major customer 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, an analysis of revenue and assets of the Group by geographical distribution has not been presented.

5. REVENUE

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Revenue from contract with customers		
Revenue recognised at point in time		
— Sales of cooked food, beverage and tobacco products	13,026	17,541
Revenue recognised over time		
— Provision of management, cleaning and utilities services	1,074	1,206
	<u>14,100</u>	<u>18,747</u>
Revenue from other sources		
Rental income from leases of premises to tenants	2,108	2,767
	<u>16,208</u>	<u>21,514</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowings	784	627
Lease liabilities	20	25
	<u>804</u>	<u>652</u>

7. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)		
Salaries and other employee benefits	4,124	5,702
Contributions to defined contribution retirement plan	302	383
	<u>4,426</u>	<u>6,085</u>
Listing expenses	—	2,125

8. 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 (“CIT”) rate was 17% (2019: 17%) during the Reporting Period. Income tax expense for the Group wholly relates to the profits of the subsidiaries, which were taxed at 17% in Singapore. Major components of income tax expense for the Reporting Period and 1H2019 are:

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Current tax		
Singapore CIT	72	189
Under-provision in respect of prior years	35	14
	107	203

9. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Reporting Period (2019 interim dividend: nil).

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit for the Reporting Period of approximately S\$986,000 (1H2019: loss S\$1,166,000) and the weighted average number of ordinary shares of the Company in issue during the Reporting Period and 1H2019 calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Effect of issue at date of beginning	800,000,000	100
Effect of capitalisation issue	–	599,999,900
Effect of share offer	–	129,281,768
	800,000,000	729,281,768

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

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period under review, the Group’s acquired property, plant and equipment at cost of approximately S\$118,000 (1H2019: approximately S\$3,003,000).

As at 30 June 2020, property, plant and equipment with carrying amount of approximately S\$6,104,000 (31 December 2019: S\$6,150,000) were secured for the secured mortgage loan as below mentioned in Note 14.

12. TRADE AND OTHER RECEIVABLES

	30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Audited)
Trade receivables (<i>Note</i>)	213	529
Other receivables	316	535
	529	1,064

Note: During the Reporting Period, no trade receivables have been written off (1H2019: nil).

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

	30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Audited)
0 to 30 days	170	515
31 to 90 days	32	10
91 to 180 days	11	4
	213	529

An average credit period for customers is 7 days.

13. TRADE PAYABLES

	30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Audited)
Trade payables	1,624	2,464

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

As at 30 June 2020 and 31 December 2019, 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 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Audited)
0 to 30 days	1,620	1,898
31 to 90 days	4	566
	1,624	2,464

14. BORROWINGS

	30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Audited)
Secured loans ¹	72,575	56,151
Working capital loan ²	5,000	–
	<u>77,575</u>	<u>56,151</u>

Notes: ¹ The bank borrowing was secured by the pledge of certain of the Group's property, plant and equipment, investment properties and bank deposit which carries a weighted average effective interest rate of 2.28% (31 December 2019: 2.35%) per annum.

² The loan is from the Temporary Bridging Loan Programme ("TBLP"), which provides access to working capital for businesses as announced by the Singapore Government. The loan under the TBLP has a one year deferral in principal repayment.

	30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Unaudited)
Effective interest rate	<u>1.88%–3.24%</u>	<u>2.18%–3.24%</u>

	30 June 2020 S\$'000 (Unaudited)	31 December 2019 S\$'000 (Unaudited)
Analysis by payment term:		
Within one year or on demand	8,816	3,535
More than one year	<u>68,759</u>	<u>52,616</u>
	<u>77,575</u>	<u>56,151</u>

15. SHARE CAPITAL

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

		HK\$'000	S\$'000
Authorised share capital:			
10,000,000,000	Shares	<u>100,000</u>	<u>17,668</u>
		HK\$'000	S\$'000
Shares in issue or to be issued, fully paid or credited as fully paid:			
800,000,000	Shares	<u>8,000⁽ⁱ⁾</u>	<u>1,381</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND PROSPECT

The core business and revenue structure of the Group remains unchanged. The Group owns and operates food centres and food streets in Singapore since 2004. The revenue of the Group is primarily derived from the Group's two main operating business segments, being (i) the outlet management operation which involves the leasing of food establishment premises to tenants and the provision of management, cleaning and utilities services to tenants (the “**Outlet Management**”), and (ii) the food and beverage stalls operation which comprises the retailing of beverage, tobacco products, and cooked food directly to consumers such as mixed vegetable rice, zi char, roasted meat and chicken rice located in food establishments operated and managed by the Group and third parties (the “**Food and Beverage Stalls**”).

The impact of the outbreak of the novel coronavirus pandemic (the “**COVID-19 Outbreak**”) has significantly affected most industries, especially the food and beverage industry. On 3 April 2020 the Singapore Government announced a set of strict measures (the “**Circuit Breaker**”) to curb the spread of the virus. In late May 2020, the Singapore Government announced the progressive lifting of the Circuit Breaker in three phases, with the first phase on 2 June 2020, and the second phase on 19 June 2020. The date of the third phase has yet to be announced by the Singapore Government.

Under the second phase, more activities were permitted to resume, in particular the ability to dine-in at food establishments. However, safe distancing remains mandatory for customers dining-in and this will restrict the number of diners the Group can receive, which may in turn affect revenue. For details of the Circuit Breaker, please refer to the Company's voluntary announcement dated 22 June 2020.

The outlook for the remainder of 2020 continues to be unclear and uncertain as a result of the continuing COVID-19 Outbreak and the associated restrictions. The Group's food establishments have resumed operations with the exception of its food street as the latter is primarily targeted at tourists. The existence of COVID-19 Outbreak control measures such as safe distancing, work from home, travel restrictions and other related controls will continue to affect the Group's business.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately S\$5.3 million or 24.7% from approximately S\$21.5 million to approximately S\$16.2 million for the Reporting Period. The decrease was mainly caused by the nationwide lockdown, to contain the spread of the COVID-19 in Singapore.

The Group derives its 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 Reporting Period and 1H2019 as indicated:

	For the six months ended 30 June			
	2020		2019	
	S\$'000	%	S\$'000	%
Sale of cooked food, beverages and tobacco products	13,026	80.4	17,541	81.5
Rental income from lease of premises to tenants	2,108	13.0	2,767	12.9
Provision of management, cleaning and utilities services	1,074	6.6	1,206	5.6
Total	<u>16,208</u>	<u>100.0</u>	<u>21,514</u>	<u>100.0</u>

For the Reporting Period and 1H2019, the sale of cooked food, beverages and tobacco products was the largest revenue contributor, accounting for approximately 80.4% and 81.5% of the Group's revenue respectively. Revenue generated from sale of cooked food, beverages and tobacco products decreased by approximately S\$4.5 million, or 25.7%, from approximately S\$17.5 million to approximately S\$13.0 million. The decrease was mainly attributable to restrictions imposed by the Circuit Breaker, including no dining-in, closures of non-essential workplaces and travel restrictions. The Food and Beverages Stalls in the Central Business District and Orchard Road locations suffered the biggest decline in revenue.

The revenue generated from rental income from lease of premises to tenants decreased by approximately S\$0.7 million, or 23.8%, from approximately S\$2.8 million to approximately S\$2.1 million. The decrease was mainly attributed to the temporary closure of the food street and provision of rental rebate to tenants.

The provision of management, cleaning and utilities services income decreased by approximately S\$0.1 million or 11.0%, from approximately S\$1.2 million to approximately S\$1.1 million. The decrease was mainly attributable to the reduction in service income for maintenance, plate collection and utilities as a result of no dining-in during the Circuit Breaker period.

Cost of inventories consumed

The cost of inventories consumed decreased by approximately S\$1.9 million, or 23.7%, from approximately S\$8.2 million to approximately S\$6.3 million, which was in line with the decrease in revenue from sale of the cooked food, beverages and tobacco products. The cost of inventories consumed primarily represents the cost of purchases of food ingredients for its food and beverage retail business, consisting of fresh and frozen meat, seafood, vegetables, eggs, dried food, canned food, seasonings, beverages, coffee powder and cigarettes.

Staff costs

Staff costs are the second largest component of operating expenses and amounted to approximately S\$6.1 million and S\$4.4 million for the 1H2019 and the Reporting Period, respectively, representing approximately 28.3% and 27.3% of revenue for the respective periods.

Staff costs decreased by approximately S\$1.7 million, or 27.3%, mainly due to approximately S\$1.4 million received from the Singapore Government, in order to support employers to retain employees during the COVID-19 Outbreak through the Jobs Support Scheme, foreign worker levy waiver and foreign worker levy rebate.

Property rentals and related expenses

The property rentals and related expenses primarily represent the rental expenses paid for the leasing of properties from independent third parties for the operation of the short-term food and beverage stalls, food centres and food street. The property rentals and related expenses decreased by approximately S\$1.1 million, or 42.8%, from approximately S\$2.6 million to approximately S\$1.5 million. The decrease was mainly due to rental rebates or rental reduction given by landlords during the COVID-19 Outbreak, and cessation of operations of five food stalls that were located in food centres managed by independent third parties and one food centre whose lease has not been renewed during 1H2019.

Management, cleaning and utilities expenses

The management, cleaning and utilities expenses decreased by approximately S\$0.4 million, or 37.0%, from approximately S\$1.1 million to approximately S\$0.7 million. The decrease was mainly attributable to the decreased utilities and cleaning expenses bills with the closure of five food stalls, and one food centre during 1H2019.

Listing expenses

In 2019, the listing expenses were one-off expenses, primarily consisting of fees paid to professional parties, underwriting fee and commission in relation to the listing of the Company's share on the Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2019.

Other operating expenses

	For the six months ended	
	30 June	
	2020	2019
	S\$'000	S\$'000
Administrative fee	123	129
Advertisement and promotion	39	41
Insurance	19	14
Property tax and related costs	21	153
Repairs and maintenance	282	325
Legal and professional fee	261	108
Telephone and communication	24	27
Donation	–	202
Others	177	154
	<u>946</u>	<u>1,153</u>

The other operating expenses decreased approximately S\$0.2 million or 18.0% from approximately S\$1.2 million to approximately S\$1.0 million. The decrease was mainly attributable to the property tax rebate received from the Singapore Government as part of the support given for the COVID-19 Outbreak and no donation in the Reporting Period. However, this was offset by higher professional fees as result of acquisition of a property located at Level 1 of People's Park Centre, 101 Upper Cross Street, Singapore 058357 ("**101 Upper Cross Street**"), of which more details can be found in the Company's announcements dated 14 February 2020 and 24 March 2020, as well as the circular of the Company dated 17 March 2020.

Finance costs

The finance costs increased from approximately S\$0.7 million in 1H2019 to S\$0.8 million in the Reporting Period, an increase of approximately 23.3% mainly due to additional loan drawn down for the acquisition of 101 Upper Cross Street in March 2020. In addition, two property loans were taken in relation to the two properties acquired in 1H2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020 and 31 December 2019, the Group's key financial position indicators are as follows:

	30 June 2020 S\$'000	31 December 2019 S\$'000
Current assets	14,187	15,574
Current liabilities	13,905	10,045
Net current assets	282	5,529
Interest-bearing bank borrowings	77,575	56,151
Equity	66,128	65,142
Gearing ratio	117.3%	86.2%

The overall net current asset of the Group decreased by approximately S\$5.2 million, primarily due to cash payment for acquisition of the 101 Upper Cross Street.

As at 30 June 2020, the Group had an aggregate outstanding bank borrowing of approximately S\$77.6 million, which was an increase of S\$21.4 million or 38.2% from approximately S\$56.2 million as at 31 December 2019. The increase was mainly due to the new loan taken to finance the acquisition of 101 Upper Cross Street, and a S\$5.0 million unsecured working capital loan offered by the Singapore Government, to assist companies during the COVID-19 Outbreak.

All secured borrowings were secured by the pledge of certain of the Group's (i) property, plant and equipment; (ii) investment properties; (iii) future rental income; (iv) bank deposit; and (v) corporate guarantee of the Company and two subsidiaries of the Group, which carries a weighted average effective interest rate of approximately 2.28%.

The Group had unutilised banking facilities of at least S\$14.2 million as at 30 June 2020. The Group aims to have enough liquidity by keeping sufficient cash balances and having committed credit lines available, which would enable the Group to continue its business in a manner consistent with its short-term and long-term financial needs.

Gearing ratio is calculated based on interest-bearing bank borrowings divided by total equity as at the respective period or year end and multiplied by 100%.

As at 30 June 2020, the gearing ratio is approximately 117.3%, compared to approximately 86.2% as at 31 December 2019. The increase in gearing ratio was mainly attributable to additional loans drawn down for the acquisition of 101 Upper Cross Street.

Use of proceeds

	Net Proceeds allocated (HK\$'000)	Approx % of Net of Proceeds %	Utilised as at 30 June 2020 (HK\$'000)	Balance as at 30 June 2020 (HK\$'000)
1. To partly fund the purchase of food centres				
a. 101 Yishun	34,760	32%	(34,760)	–
b. 150 South Bridge Road	5,610	5%	(5,610)	–
2. To purchase food centres	35,530	32%	(29,768)	5,762
3 To partially repay outstanding bank borrowings	11,110	10%	(11,110)	–
4 To renovate existing food centres	5,610	5%	(2,801)	2,809
5 To upgrade IT infrastructure and systems	6,270	6%	(290)	5,980
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>(95,449)</u></u>	<u><u>14,551</u></u>

The Directors do not anticipate any material change to the plan as to the use of the net proceeds except that in light of the sluggish economic condition in Singapore due to the COVID-19 Outbreak, the Group will utilise the balance of the net proceeds in a conservative manner on or before 31 December 2021. Should the Directors decide to reallocate the planned use of the net proceeds to other business plans and/or new projects of the Group to a material extent, the Group will make appropriate announcement(s) in due course.

Capital commitment and significant investments held

As at 30 June 2020, the Group has no capital commitment and significant investments held.

Foreign currency risks

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

Pledge of Assets

As at 30 June 2020, the Group pledged certain of its property, plant and equipment, investment properties and bank deposit amounting to approximately S\$134,200,000 (31 December 2019: approximately S\$110,500,000) to secure bank borrowings of the Group.

CONNECTED TRANSACTIONS

The Group had no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the Reporting Period.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

The Group had not provided any financial assistance and guarantee to affiliated companies during the Reporting Period.

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.

HUMAN RESOURCE

As of 30 June 2020, the Group had 308 employees (31 December 2019: 343). The remuneration policy and package of the Group's employees are structured in accordance with market norms 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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organisational structure of the Company, Mr. Chu Chee Keong is the chairman of the Board and the chief executive officer. With extensive experience in the food and beverage industry, the Board considers that the 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 balance of power and authority is ensured by the operation of the senior management and the Board, which comprise 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 independence element in its composition. Save as otherwise disclosed herein, the Company has complied with the code provisions as set out in the CG Code for the Reporting Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries to all Directors, all Directors confirm that they have fully complied with the relevant requirements set out in consistent with interim results announcement and its own code of conduct during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Reporting Period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Reporting Period.

AUDIT COMMITTEE

The Audit Committee, 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 Reporting Period.

PUBLICATION OF 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The interim report for the Reporting Period will be despatched to shareholders and will be published on the websites of the Stock 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 the 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, 26 August 2020

As at the date of this announcement, the Directors 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