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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 2021

The board (the “**Board**”) of directors (the “**Directors**”) 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 2021 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2020 (“**1H2020**”), 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 2021

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	S\$'000	S\$'000
		(Unaudited)	(Unaudited)
Revenue	5	18,591	16,208
Other gains and losses, net		135	358
Cost of inventories consumed		(6,808)	(6,274)
Staff costs		(5,232)	(4,426)
Property rentals and related expenses		(1,712)	(1,489)
Management, cleaning and utilities expenses		(722)	(730)
Depreciation on property, plant and equipment		(285)	(247)
Depreciation on right-of-use assets		(218)	(557)
Other operating expenses		(1,359)	(946)
Finance costs	6	(864)	(804)
Profit before taxation	7	1,526	1,093
Taxation	8	(213)	(107)
Profit for the period		1,313	986
Total comprehensive income for the period		1,313	986
Earnings per share			
Basic and diluted (Singapore cents)	10	0.16	0.12

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Note</i>	30 June 2021 S\$'000 (Unaudited)	31 December 2020 S\$'000 (Audited)
Non-current assets			
Investment properties		127,945	126,300
Property, plant and equipment	11	10,104	6,674
Deposits paid		101	111
Right-of-use assets		135	353
		<u>138,285</u>	<u>133,438</u>
Current assets			
Inventories		181	172
Trade and other receivables	12	298	824
Prepayments and deposits paid		1,181	1,419
Other financial assets		1,596	685
Pledged bank deposit		1,015	1,015
Cash and cash equivalents		6,272	10,203
		<u>10,543</u>	<u>14,318</u>
Current liabilities			
Trade payables	13	1,913	2,395
Accruals, other payables and deposit received		3,044	2,719
Borrowings	14	4,030	3,256
Lease liabilities		131	313
Tax payables		207	185
		<u>9,325</u>	<u>8,868</u>
Net current assets		<u>1,218</u>	<u>5,450</u>
Total assets less current liabilities		<u>139,503</u>	<u>138,888</u>
Non-current liabilities			
Borrowings	14	70,623	71,033
Deposits received		235	43
Lease liabilities		–	480
		<u>70,858</u>	<u>71,556</u>
Net assets		<u>68,645</u>	<u>67,332</u>
Capital and reserves			
Share capital	15	1,381	1,381
Reserves		67,264	65,951
		<u>68,645</u>	<u>67,332</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	2,731	2,705
Net cash used in investing activities	(2,162)	(6,201)
Net cash (used in)/generated from financing activities	(4,500)	2,291
Cash and cash equivalents at the beginning of the period	<u>10,203</u>	<u>11,688</u>
Cash and cash equivalents at the end of the period	<u><u>6,272</u></u>	<u><u>10,483</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Share capital <i>S\$'000</i>	Share premium <i>S\$'000</i>	Other reserves <i>(Note)</i> <i>S\$'000</i>	Retained earnings <i>S\$'000</i>	Total <i>S\$'000</i>
As at 1 January 2021 (Audited)	1,381	21,708	2,790	41,453	67,332
Profit and total comprehensive income for the period	–	–	–	1,313	1,313
As at 30 June 2021 (Unaudited)	1,381	21,708	2,790	42,766	68,645
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)	1,381	21,708	2,790	40,249	66,128

Note: The other reserves of the Group represent the reserves arising from restructuring of the Group on initial public offering which are non-distributable.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 which is incorporated in the British Virgin Islands. The shares of the Company have been listed and traded on the Main Board (the “**Main Board**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 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 of the Company in Singapore is located at 51 Ubi Avenue 1, #02-17/18 Paya Ubi Industrial Park, Singapore 408933 and the principal place of business of the Company in Hong Kong is Unit 912, 9/F., Two Harbourfront, 22 Tak Fung Street, Hung Hom, Kowloon, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in leasing, and outlet and stall management. This unaudited condensed consolidated financial statements of the Group for the Reporting Period are presented in Singapore dollar (“**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

The unaudited condensed consolidated financial statements for the Reporting Period (the “**Interim Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standard Board (“**IASB**”). The Interim Financial Statements have been prepared under the historical basis, except for investment properties which are measured at fair value and other financial assets measured at fair value through profit or loss.

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 2020.

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 31 December 2020, except for the application of new and revised International Financial Reporting Standards as described below.

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

Application of new and amendments to IFRSs

In the Reporting Period, the Group has applied 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 2021 for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7 IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
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The application of 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.

4. OPERATING SEGMENT INFORMATION

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

a. Rental and outlet management

The business segment of rental and outlet management operation involves the leasing of food establishment premises to tenants and the provision of 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 Interim Financial Statements. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' emoluments, exchange gain/(loss), bank interest income and finance cost arising from lease liabilities.

For the six months ended 30 June 2021

	Rental and outlet management S\$'000 (Unaudited)	Food and beverage stalls S\$'000 (Unaudited)	Unallocated S\$'000 (Unaudited)	Total S\$'000 (Unaudited)
Segment revenue				
External revenue from contracts with customers	1,160	14,498	–	15,658
External rental income	2,933	–	–	2,933
	<u>4,093</u>	<u>14,498</u>	<u>–</u>	<u>18,591</u>
Inter-segment revenue:				
Rental and service income	7,132	–	–	7,132
	<u>11,225</u>	<u>14,498</u>	<u>–</u>	<u>25,723</u>
Adjustment and elimination	(7,132)	–	–	(7,132)
	<u>4,093</u>	<u>14,498</u>	<u>–</u>	<u>18,591</u>
Total revenue	<u>4,093</u>	<u>14,498</u>	<u>–</u>	<u>18,591</u>
Segment profit/(loss)	<u>842</u>	<u>1,713</u>	<u>(1,029)</u>	<u>1,526</u>
Other segment information:				
Exchange gains	–	–	(14)	(14)
Finance costs	(814)	–	(50)	(864)
Depreciation of property, plant and equipment	(208)	(28)	(49)	(285)
Depreciation of right-of-use assets	(34)	(184)	–	(218)
Staff costs	(885)	(3,137)	(1,210)	(5,232)
Property rentals and related expenses	(1,001)	(711)	–	(1,712)
Interest income	–	–	*	*
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Assets and liabilities:				
Segment assets	<u>131,451</u>	<u>6,406</u>	<u>10,971</u>	<u>148,828</u>
Segment liabilities	<u>72,327</u>	<u>2,288</u>	<u>5,568</u>	<u>80,183</u>

* Less than S\$1,000.

For the six months ended 30 June 2020

	Rental and outlet management S\$'000 (Unaudited)	Food and beverage stalls S\$'000 (Unaudited)	Unallocated S\$'000 (Unaudited)	Total S\$'000 (Unaudited)
Segment revenue				
External revenue from contracts with customers	1,074	13,026	–	14,100
External rental income	<u>2,108</u>	<u>–</u>	<u>–</u>	<u>2,108</u>
	3,182	13,026	–	16,208
Inter-segment revenue:				
Rental and service income	<u>6,751</u>	<u>–</u>	<u>–</u>	<u>6,751</u>
	9,933	13,026	–	22,959
Adjustment and elimination	<u>(6,751)</u>	<u>–</u>	<u>–</u>	<u>(6,751)</u>
Total revenue	<u><u>3,182</u></u>	<u><u>13,026</u></u>	<u><u>–</u></u>	<u><u>16,208</u></u>
Segment profit/(loss)	<u><u>547</u></u>	<u><u>1,346</u></u>	<u><u>(800)</u></u>	<u><u>1,093</u></u>
Other segment information:				
Exchange losses	–	–	281	281
Finance costs	(784)	–	(20)	(804)
Depreciation of property, plant and equipment	(100)	(89)	(58)	(247)
Depreciation of right-of-use assets	(211)	(346)	–	(557)
Staff costs	(647)	(2,647)	(1,132)	(4,426)
Property rentals and related expenses	(997)	(492)	–	(1,489)
Interest income	<u>–</u>	<u>–</u>	<u>19</u>	<u>19</u>
Assets and liabilities:				
Segment assets	<u><u>136,719</u></u>	<u><u>5,843</u></u>	<u><u>6,846</u></u>	<u><u>149,408</u></u>
Segment liabilities	<u><u>73,987</u></u>	<u><u>2,972</u></u>	<u><u>6,321</u></u>	<u><u>83,280</u></u>

Information about major customers

No single major customer contributed more than 10% 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	
	2021	2020
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Revenue from contract with customers		
Sales of goods at point in time		
— Sales of cooked food, beverage and tobacco products	14,498	13,026
Service income over time		
— Provision of management, cleaning and utilities services	1,160	1,074
	<u>15,658</u>	<u>14,100</u>
Revenue from other sources		
Rental from leases of premises to tenants	2,933	2,108
	<u>18,591</u>	<u>16,208</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowings	860	784
Lease liabilities	4	20
	<u>864</u>	<u>804</u>

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended 30 June	
	2021	2020
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)		
Salaries and benefits	4,922	4,124
Contributions to defined contribution retirement plans	310	302
	<u>5,232</u>	<u>4,426</u>

8. TAXATION

No provision of taxation in Hong Kong has been made as the Group's income neither arose in nor derived from Hong Kong.

The Singapore Corporate Income Tax ("CIT") rate was 17% (2020: 17%) during the Reporting Period. Income tax expense for the Group relates wholly to the profits of the subsidiaries of the Company, which were taxed at 17% in Singapore. Major components of income tax expense for the Reporting Period and 1H2020 are as follows:

	Six months ended 30 June	
	2021 S\$'000 (Unaudited)	2020 S\$'000 (Unaudited)
Current tax		
Singapore CIT	207	72
Under-provision in respect of prior years	6	35
	<u>213</u>	<u>107</u>

9. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the Reporting Period (1H2020 interim dividend: nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the Reporting Period of approximately S\$1,313,000 (1H2020: S\$986,000) and the weighted average number of ordinary shares of the Company in issue during the Reporting Period is 800,000,000 (1H2020: 800,000,000).

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

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group's acquired property, plant and equipment at cost of approximately S\$215,000 (1H2020: approximately S\$118,000).

During the Reporting Period, the Group decided to transfer investment property located at 51 Ubi Avenue 1, #01-17 & #02-17 Paya Ubi Industrial Park, Singapore 408933 to property, plant and equipment, as result of occupied majority of property since January 2021.

As at 30 June 2021, property, plant and equipment with carrying amount of approximately S\$6,056,000 (31 December 2020: S\$6,055,000) were secured under mortgage loan as below mentioned in Note 14 to this condensed consolidated financial statements for the six months ended 30 June 2021.

12. TRADE AND OTHER RECEIVABLES

	30 June 2021 S\$'000 (Unaudited)	31 December 2020 S\$'000 (Audited)
Trade receivables (<i>Note</i>)	117	252
Other receivables	181	572
	<u>298</u>	<u>824</u>

Note: During the Reporting Period, no trade receivables were written off (1H2020: 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 2021 S\$'000 (Unaudited)	31 December 2020 S\$'000 (Audited)
0 to 30 days	106	129
31 to 90 days	11	81
91 to 180 days	–	42
	<u>117</u>	<u>252</u>

An average credit period for customers is 7 days.

13. TRADE PAYABLES

	30 June 2021 S\$'000 (Unaudited)	31 December 2020 S\$'000 (Audited)
Trade payables	1,913	2,395

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

As at 30 June 2021 and 31 December 2020, 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 2021 S\$'000 (Unaudited)	31 December 2020 S\$'000 (Audited)
0 to 30 days	1,902	1,542
31 to 90 days	11	831
91 to 180 days	–	22
	<u>1,913</u>	<u>2,395</u>

14. BORROWINGS

	30 June 2021	31 December 2020
	<i>S\$'000</i>	<i>S\$'000</i>
	(Unaudited)	(Audited)
Secured loans ¹	69,653	69,289
Working capital loan ²	5,000	5,000
	<u>74,653</u>	<u>74,289</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 deposits.
- 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 2021	31 December 2020
	(Unaudited)	(Audited)
Effective interest rate	<u>1.50%–2.38%</u>	<u>1.58%–2.68%</u>

Analysis by payment term:

	30 June 2021	31 December 2020
	<i>S\$'000</i>	<i>S\$'000</i>
	(Unaudited)	(Unaudited)
Within one year or on demand	4,030	3,256
More than one year	70,623	71,033
	<u>74,653</u>	<u>74,289</u>

15. SHARE CAPITAL

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

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

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

BUSINESS OVERVIEW AND PROSPECT

The core business and revenue structure of the Group remains unchanged. The Group owns and operates food centres 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 and adversely 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. Singapore entered Phase 3 of the Circuit Breaker on 28 December 2020, with further relaxation of measures, including increasing the group size for dine-in from 5 to 8 persons.

In view of the rise in COVID-19 community cases, the Singapore Government implemented a reversion to Phase 2 (Heightened Alert) on 16 May to 21 June 2021. The measures included cessation of dining-in at food and beverage establishments, reduction of interactions to 2 persons a group and working-from-home as the default work arrangement. It was replaced by the introduction of Phase 3 (Heightened Alert) on 22 June 2021 as community cases began to decrease. However, due to the resurgence of COVID-19 Clusters, Phase 2 (Heightened Alert) was reactivated on 22 July 2021.

With the increased number of vaccinated persons, the Singapore Government has announced a 2-stage easing of Phase 2 (Heightened Alert) approach on 6 August 2021, which is due to initiate on 10 August 2021 and 19 August 2021. The easing includes allowing vaccinated persons to dine-in, from 2 persons to subsequently, 5 persons, and the return of up to 50% of the workforce back to their workplaces.

The outlook for the remainder of 2021 continues to be uncertain as a result of the continuing COVID-19 Outbreak and the associated restrictions. 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. Nevertheless, the Group will continue to strive in its efforts to maximise sales and minimise the negative impact of the COVID-19 Outbreak.

FINANCIAL REVIEW

The following table sets forth the revenue breakdown by the three categories of the revenue for the Reporting Period and 1H2020 as indicated:

	For the six months ended 30 June			
	2021		2020	
	<i>S\$'000</i>	%	<i>S\$'000</i>	%
Sale of cooked food, beverages and tobacco products	14,498	78.0	13,026	80.4
Rental income from lease of premises to tenants	2,933	15.8	2,108	13.0
Provision of management, cleaning and utilities services	1,160	6.2	1,074	6.6
Total	<u>18,591</u>	<u>100.0</u>	<u>16,208</u>	<u>100.0</u>

For the Reporting Period and 1H2020, the sale of cooked food, beverages and tobacco products was the largest revenue contributor, accounting for approximately 78.0% and 80.4% of the Group's revenue respectively. Revenue generated from sale of cooked food, beverages and tobacco products increased by approximately S\$1.5 million, or 11.3%, from approximately S\$13.0 million to approximately S\$14.5 million. The increase was mainly attributable to lesser restrictions on dining-in during the Reporting Period as our customers adapt to the new normal, as compared to no dining-in and closures of non-essential workplaces during the Circuit Breaker in 1H2020.

The revenue generated from rental income from lease of premises to tenants increased by approximately S\$0.8 million, or 39.1%, from approximately S\$2.1 million to approximately S\$2.9 million. The increase was mainly attributable to the commencement of operations for 101 Upper Cross Street during the Reporting Period, as well as lesser provision of rental rebate to tenants as compared to 1H2020.

The provision of management, cleaning and utilities services income increased by approximately S\$0.1 million or 8.0%, from approximately S\$1.1 million to approximately S\$1.2 million. The increase was mainly attributable to the commencement of operations for 101 Upper Cross Street during the Reporting Period.

Cost of inventories consumed

The cost of inventories consumed increased by approximately S\$0.5 million, or 8.5%, from approximately S\$6.3 million to approximately S\$6.8 million, which was in line with the increase 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 cost accounts for the second largest component under operating expenses which amounted to approximately S\$4.4 million and S\$5.2 million for the 1H2020 and the Reporting Period, respectively, representing approximately 27.3% and 28.1% of revenue for the respective periods.

Staff costs increased by approximately S\$0.8 million or 18.2%, which was in line with the increase in revenue, as well as lesser amount of grants received from the Singapore Government in the Reporting Period as compared to 1H2020, which aimed to provide support companies retain employees during the COVID-19 Outbreak.

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 centers. The property rentals and related expenses increased by approximately S\$0.2 million, or 15.0%, from approximately S\$1.5 million to approximately S\$1.7 million. The increase was in line with the increase in revenue as well as higher rental rebates or rental reduction given by landlords during the COVID-19 Outbreak in 1H2020. In addition, some of our leases were converted to shorter term leases during the Reporting Period to enhance our flexibility with regard to lease renewal, and are accounted for as short-term leases instead of right-of-use assets. This resulted in higher rental expenses and lower depreciation on right-of-use assets.

Management, cleaning and utilities expenses

The management, cleaning and utilities expenses remained largely unchanged between 1H2020 and the Reporting Period.

Other operating expenses

	For the six months ended	
	30 June	
	2021	2020
	S\$'000	S\$'000
Administrative fee	125	123
Advertisement and promotion	130	39
Insurance	13	19
Property tax and related costs	429	21
Repairs and maintenance	370	282
Legal and professional fee	122	261
Telephone and communication	18	24
Donation	8	–
Others	144	177
	<u>1,359</u>	<u>946</u>

The other operating expenses increased approximately S\$0.5 million or 43.7% from approximately S\$0.9 million to approximately S\$1.4 million. The increase was mainly attributable to the property tax rebate received from the Singapore Government as part of the support given for the COVID-19 Outbreak during 1H2020, as well as higher repairs and maintenance expenses to refurbish 101 Upper Cross Street for our operations. However, these were offset by lower legal and professional fees, which were incurred in 1H2020 due to the acquisition of 101 Upper Cross Street.

Finance costs

The finance costs increased from approximately S\$0.8 million in 1H2020 to S\$0.9 million in the Reporting Period, an increase of approximately 7.5% mainly due to additional loan drawn down of S\$4.0 million for the acquisition of Block 171 Yishun Avenue 7, #01–781, Singapore 760171 in March 2021 and a S\$5.0 million unsecured working capital loan offered by the Singapore Government in June 2020, to assist companies during the COVID-19 Outbreak.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021 and 31 December 2020, the Group's key financial position indicators are as follows:

	30 June 2021 S\$'000	31 December 2020 S\$'000
Current assets	10,543	14,318
Current liabilities	9,325	8,868
Net current assets	1,218	5,450
Interest-bearing bank borrowings	74,653	74,289
Equity	68,645	67,332
Gearing ratio	108.8%	110.3%

The overall net current assets of the Group decreased by approximately S\$4.2 million, primarily due to full repayment for one of the mortgage loans.

As at 30 June 2021, the Group had aggregate outstanding bank borrowings of approximately S\$74.7 million, which was an increase of S\$0.4 million or 0.5% from approximately S\$74.3 million as at 31 December 2020. The increase was mainly due to the S\$4.0 million loan taken to finance the acquisition of Block 171 Yishun Avenue 7, #01–781, Singapore 760171 in March 2021, which was offset by repayment of bank borrowings during the Reporting Period.

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 2.33%.

The Group had unutilised banking facilities of at least S\$15.7 million as at 30 June 2021. 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 2021, the gearing ratio is approximately 108.8%, compared to approximately 110.3% as at 31 December 2020. The decrease in gearing ratio was mainly attributable to increase in equity as a result of profit for the Reporting Period.

Use of proceeds

	Net Proceeds allocated (HK\$'000)	Approx Percentage of Net of Proceeds	Utilised as at 30 June 2021 (HK\$'000)	Balance as at 30 June 2021 (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%	(35,530)	–
3. To partially repay outstanding bank borrowings	11,110	10%	(11,110)	–
4. To renovate existing food centres	5,610	5%	(5,610)	–
5. To upgrade IT infrastructure and systems	6,270	6%	(290)	5,980
6. General working capital	11,110	10%	(11,110)	–
	<u>110,000</u>	<u>100%</u>	<u>(104,020)</u>	<u>5,980</u>
Total	<u>110,000</u>	<u>100%</u>	<u>(104,020)</u>	<u>5,980</u>

The Directors do not anticipate any material change to the plan as to the use of the net proceeds except that considering 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 2021, 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 2021, the Group pledged certain of its property, plant and equipment, investment properties and bank deposit amounting to approximately S\$125,468,000 (31 December 2020: approximately S\$133,370,000) 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.

HUMAN RESOURCE

As of 30 June 2021, the Group had 307 employees (31 December 2020: 304). The remuneration policy and package of the Group's employees are structured in accordance with market norms and statutory requirements where appropriate. On top of pension funds and insurances, the Group also provides staff benefits such as incentives and subsidized medical fees 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 did not recommend 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. Ng Yong Hwee 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 2021 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, 24 August 2021

As at the date of this announcement, the Directors are:

Executive Directors:

Mr. Chu Chee Keong (Zhu Zhiqiang)
Ms. Leow Poh Hoon (Liao Baoyun)
Ms. Chu Pek Si (Zhu Peishi)

Independent non-executive Directors:

Mr. Wong Loke Tan
Mr. Ng Yong Hwee
Mr. Mah Seong Kung