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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 2022

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 2022 (the “**Reporting Period**” or “**1H2022**”) together with the comparative figures for the six months ended 30 June 2021 (“**1H2021**”), 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 2022

	<i>Note</i>	Six months ended 30 June	
		2022	2021
		S\$'000	S\$'000
		(Unaudited)	(Unaudited)
Revenue	5	21,912	18,591
Other gains and losses, net		109	135
Cost of inventories consumed		(7,246)	(6,808)
Staff costs		(5,929)	(5,232)
Property rentals and related expenses		(1,634)	(1,712)
Management, cleaning and utilities expenses		(1,361)	(722)
Depreciation on property, plant and equipment		(501)	(285)
Depreciation on right-of-use assets		(732)	(218)
Other operating expenses		(2,390)	(1,359)
Finance costs	6	(764)	(864)
Profit Before Tax	7	1,464	1,526
Taxation	8	(147)	(213)
Profit for the period		1,317	1,313
Total comprehensive income for the period		1,317	1,313
Earnings per share			
Basic and diluted (in Singapore cents)	10	0.16	0.16

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Note</i>	30 June 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
Non-current assets			
Investment properties		136,100	136,100
Property, plant and equipment	<i>11</i>	31,031	10,471
Right-of-use assets		7,151	7,883
Deposits paid		882	980
Deferred tax assets		47	47
		<hr/> 175,211	<hr/> 155,481
 Current assets			
Inventories		147	166
Trade and other receivables	<i>12</i>	520	348
Prepayments and deposits paid		1,171	2,341
Financial assets at fair value through profit or loss		1,696	1,568
Pledged bank deposits		1,015	1,015
Cash and cash equivalents		6,062	6,918
		<hr/> 10,611	<hr/> 12,356
 Current liabilities			
Trade payables	<i>13</i>	2,410	2,371
Accruals, other payables and deposit received		4,034	3,438
Borrowings	<i>14</i>	5,116	6,955
Lease liabilities		1,514	1,348
Tax payables		156	541
		<hr/> 13,230	<hr/> 14,653

		30 June 2022	31 December 2021
	<i>Note</i>	S\$'000	S\$'000
		(Unaudited)	(Audited)
Net current liabilities		(2,619)	(2,297)
Total assets less current liabilities		172,592	153,184
Non-current liabilities			
Borrowings	<i>14</i>	92,738	74,227
Lease liabilities		5,722	6,427
Provision for reinstatement costs		302	302
Deposits received		613	328
		99,375	81,284
Net assets		73,217	71,900
Capital and reserves			
Share capital	<i>15</i>	1,381	1,381
Reserves		71,836	70,519
Total equity		73,217	71,900

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	S\$'000	S\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	4,964	2,731
Net cash used in investing activities	(5,749)	(2,162)
Net cash used in financing activities	(71)	(4,500)
Cash and cash equivalents at the beginning of the period	6,918	10,203
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	6,062	6,272
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	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 2022 (Audited)	1,381	21,708	2,790	46,021	71,900
Profit and total comprehensive income for the period	–	–	–	1,317	1,317
As at 30 June 2022 (Unaudited)	1,381	21,708	2,790	47,338	73,217
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

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 2022

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.

The Company is an investment holding company. Its subsidiaries are principally engaged in leasing, outlet and stall management of food establishment premises and operation of food and beverage stalls. 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 certain 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 2021.

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 2021, 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 2022 for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to IFRS 3, *Reference to the Conceptual Framework*

Amendments to IAS 16, *Property, Plant and Equipment — Proceeds before Intended Use*

Amendments to IAS 37, *Onerous Contracts — Costs of Fulfilling a Contract*

Amendments to IFRSs, *Annual Improvements to IFRSs 2018–2020*

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 is involved in the leasing of food establishment premises to tenants and the provision of cleaning and utilities services to tenants (the “**Rental and Outlet Management**”).

b. Food and beverage stalls

The business segment of food and beverage stalls operation is primarily involved in 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**”).

Inter-segment revenue from service income and rental income are priced with reference to prices charged to external parties for similar services and premises, and inter-segment management fee revenue included in service income is charged at a mark up percentage over staff costs.

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 on general working capital borrowings.

For the six months ended 30 June 2022

	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	1,850	16,269	–	18,119
External rental income	3,793	–	–	3,793
	<u>5,643</u>	<u>16,269</u>	<u>–</u>	<u>21,912</u>
Inter-segment revenue:				
Rental and service income	9,103	–	–	9,103
	<u>14,746</u>	<u>16,269</u>	<u>–</u>	<u>31,015</u>
Adjustment and elimination	(9,103)	–	–	(9,103)
	<u>5,643</u>	<u>16,269</u>	<u>–</u>	<u>21,912</u>
Total revenue	<u>5,643</u>	<u>16,269</u>	<u>–</u>	<u>21,912</u>
Segment profit/(loss)	<u>1,549</u>	<u>1,481</u>	<u>(1,566)</u>	<u>1,464</u>
Other segment information:				
Exchange gains	–	–	*	*
Finance costs	(713)	–	(51)	(764)
Depreciation of property, plant and equipment	(180)	(204)	(117)	(501)
Depreciation of right-of-use assets	(538)	(194)	–	(732)
Staff costs	(1,198)	(3,455)	(1,276)	(5,929)
Property rentals and related expenses	(1,270)	(364)	–	(1,634)
Interest income	–	–	*	*
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Assets and liabilities:				
Segment assets	<u>149,283</u>	<u>12,157</u>	<u>24,382</u>	<u>185,822</u>
Segment liabilities	<u>91,820</u>	<u>5,112</u>	<u>15,673</u>	<u>112,605</u>

* Less than S\$1,000.

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	<u>2,933</u>	<u>–</u>	<u>–</u>	<u>2,933</u>
	4,093	14,498	–	18,591
Inter-segment revenue:				
Rental and service income	<u>7,132</u>	<u>–</u>	<u>–</u>	<u>7,132</u>
	11,225	14,498	–	25,723
Adjustment and elimination	<u>(7,132)</u>	<u>–</u>	<u>–</u>	<u>(7,132)</u>
Total revenue	<u><u>4,093</u></u>	<u><u>14,498</u></u>	<u><u>–</u></u>	<u><u>18,591</u></u>
Segment profit/(loss)	<u><u>842</u></u>	<u><u>1,713</u></u>	<u><u>(1,029)</u></u>	<u><u>1,526</u></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><u>131,451</u></u>	<u><u>6,406</u></u>	<u><u>10,971</u></u>	<u><u>148,828</u></u>
Segment liabilities	<u><u>72,327</u></u>	<u><u>2,288</u></u>	<u><u>5,568</u></u>	<u><u>80,183</u></u>

* Less than S\$1,000.

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, and non-current assets situated 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	
	2022 S\$'000 (unaudited)	2021 S\$'000 (unaudited)
Revenue from contract with customers		
Sales of goods, recognised on point in time basis		
— Sales of cooked food, beverage and tobacco products	16,269	14,498
Service income, recognised on over time basis		
— Provision of management, cleaning and utilities services	1,850	1,160
	<u>18,119</u>	<u>15,658</u>
Revenue from other sources		
Rental from leases of premises to tenants	3,793	2,933
	<u>21,912</u>	<u>18,591</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2022 S\$'000 (unaudited)	2021 S\$'000 (unaudited)
Interest on:		
Bank borrowings	654	860
Lease liabilities	110	4
	<u>764</u>	<u>864</u>

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2022	2021
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Staff costs (including directors' emoluments)		
Salaries and benefits	5,544	4,922
Contributions to defined contribution retirement plans	385	310
	5,929	5,232

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% (2021: 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 1H2021 are as follows:

	Six months ended 30 June	
	2022	2021
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Singapore CIT	147	207
Under provision in respect of prior years	–	6
	147	213

9. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the Reporting Period (1H2021 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\$1,317,000 (1H2021: S\$1,313,000) and the weighted average number of ordinary shares of the Company in issue during the Reporting Period is 800,000,000 (1H2021: 800,000,000) shares.

No adjustment is made in arriving at diluted earnings per share as there were no potential ordinary shares in issue during both periods.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group's acquired land property, plant and equipment at cost of approximately S\$21,061,000 (1H2021: approximately S\$215,000).

As at 30 June 2022, property, plant and equipment with carrying amount of approximately S\$25,212,000 (31 December 2021: S\$6,056,000) were secured under mortgage loan as below mentioned in Note 14 to this condensed consolidated financial statements for the six months ended 30 June 2022.

12. TRADE AND OTHER RECEIVABLES

	30 June 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
Trade receivables (<i>Note</i>)	350	215
Other receivables	170	133
	520	348

Note: During the Reporting Period, no trade receivables were written off (1H2021: nil).

Ageing analysis of the Group's trade receivables based on invoice date as at the end of Reporting Period is as follows:

	30 June 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
0–30 Days	311	180
31–90 days	25	22
91–180 days	14	13
	350	215

An average credit period for customers is 7 days.

13. TRADE PAYABLES

	30 June 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
Trade payables	<u>2,410</u>	<u>2,371</u>

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

As at 30 June 2022 and 31 December 2021, 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 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
0–30 Days	2,366	2,367
31–90 days	36	4
91–180 days	8	–
	<u>2,410</u>	<u>2,371</u>

14. BORROWINGS

	30 June 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
Secured loans ¹	94,067	76,785
Working capital loans ²	3,787	4,397
	<u>97,854</u>	<u>81,182</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 2022 (Unaudited)	31 December 2021 (Audited)
Effective interest rate	<u><u>1.20%–1.98%</u></u>	<u><u>1.20%–2.68%</u></u>

Analysis by payment term:

	30 June 2022 S\$'000 (Unaudited)	31 December 2021 S\$'000 (Audited)
Within one year or on demand	<u>5,116</u>	<u>6,955</u>
More than one year	<u>92,738</u>	<u>74,227</u>
	<u><u>97,854</u></u>	<u><u>81,182</u></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</u> Shares	<u>100,000</u>	<u>17,668</u>
	<i>HK\$'000</i>	<i>S\$'000</i>
Shares in issue and fully paid:		
<u>800,000,000</u> Shares	<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**”).

Over the past few months, various measures that were implemented earlier in response to the outbreak of the novel coronavirus pandemic (the “**COVID-19 Outbreak**”) were further lifted. On 29 March 2022, the measures were eased, with the limit on group sizes and dining-in increased to 10, masks made optional outdoors and the full reopening of borders for fully-vaccinated travelers, as well as the lifting of restrictions on live performances. On 22 April 2022, limits on group sizes and dining-in were removed, and all workers may return to the workplace. Safe distancing was also no longer required between individuals or between groups.

Despite the gradual reopening of the economy, the outlook for the rest of 2022 continues to be uncertain as a result of the continuing COVID-19 Outbreak where newer and deadlier strains may emerge. Any re-imposition of COVID-19 Outbreak control measures such as safe distancing, work from home, travel restrictions and other related controls may affect the Group's business.

On top of the increasing labour cost, the elevating inflationary pressure on food and electricity tariffs continue to contribute to the increase in operating expenses. Nevertheless, the Group will continue to strive in its efforts to maximise sales and minimize 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 1H2021 as indicated:

	For the six months ended 30 June			
	2022		2021	
	S\$'000	%	S\$'000	%
Sale of cooked food, beverages and tobacco products	16,269	74.2	14,498	78.0
Rental income from lease of premises to tenants	3,793	17.3	2,933	15.8
Provision of management, cleaning and utilities services	1,850	8.5	1,160	6.2
Total	<u>21,912</u>	<u>100.0</u>	<u>18,591</u>	<u>100.0</u>

For the Reporting Period and 1H2021, the sale of cooked food, beverages and tobacco products was the largest revenue contributor, accounting for approximately 74.2% and 78.0% of the Group's revenue respectively. Revenue generated from sale of cooked food, beverages and tobacco products increased by approximately S\$1.8 million, or 12.4%, from approximately S\$14.5 million to approximately S\$16.3 million. The increase was mainly attributable to further relaxation of restrictions on dining-in during the Reporting Period.

The revenue generated from rental income from lease of premises to tenants increased by approximately S\$0.9 million, or 31.0%, from approximately S\$2.9 million to approximately S\$3.8 million. The increase was mainly attributable to the contribution of rental income from Lazada One during the Reporting Period, and 200 Jalan Sultan and United Square during 2H2021. In addition, there was lesser provision of rental rebate to tenants during the Reporting Period as compared to 1H2021.

The provision of management, cleaning and utilities services income increased by approximately S\$0.7 million or 58.3%, from approximately S\$1.2 million to approximately S\$1.9 million. The increase was mainly attributable to the commencement of operations for Lazada One during the Reporting Period, and United Square during 2H2021. In addition, there was higher utility income from tenants during the Reporting Period arising from increase in electricity tariffs.

Cost of inventories consumed

The cost of inventories consumed increased by approximately S\$0.4 million, or 5.9%, from approximately S\$6.8 million to approximately S\$7.2 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 increased at a slower rate compared to sale of the cooked food, beverages and tobacco products due to upward adjustment of selling prices of cooked food, beverages and tobacco products to cover the increasing costs and electricity tariffs. 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\$5.9 million and S\$5.2 million for the 1H2021 and the Reporting Period, respectively, representing approximately 27.1% and 28.1% of revenue for the respective periods.

Staff costs increased by approximately S\$0.7 million or 13.5%, 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 1H2021, which aimed to provide support to companies to 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 short-term food and beverage stalls and food centers. The property rentals and related expenses decreased slightly by approximately S\$0.1 million, or 5.9%, from approximately S\$1.7 million to approximately S\$1.6 million. The decrease was mainly attributable to closure of certain stalls during 2H2021, while new stalls that commenced operations during 1H2022 did not operate for the full period.

Management, cleaning and utilities expenses

The management, cleaning and utilities expenses increased by approximately S\$0.7 million, or 100%, from approximately S\$0.7 million to approximately S\$1.4 million. The increase was mainly attributable to the increase in utility expenses as a result of high electricity tariffs in 1H2022, as well as the increase in cleaning expenses for newly opened food centres at Lazada One and United Square.

Other operating expenses

	Six months ended 30 June	
	2022	2021
	S\$'000	S\$'000
Administrative fee	281	125
Advertisement and promotion	57	130
Insurance	13	13
Property tax and related costs	641	429
Repairs and maintenance	373	370
Legal and professional fee	420	122
Telephone and communication	21	18
Donation	312	8
Others	272	144
	<u>2,390</u>	<u>1,359</u>

The other operating expenses increased approximately S\$1.0 million or 71.4% from approximately S\$1.4 million to approximately S\$2.4 million. The increase was mainly attributable to higher property taxes due to the absence of property tax rebates during the Reporting Period, as compared to property tax rebates received during 1H2021, higher legal and professional fees as a result of the acquisition of First Capital Pte Ltd, as well as more donations made.

Finance costs

The finance costs decreased from approximately S\$0.9 million in 1H2021 to S\$0.8 million in the Reporting Period, a decrease of approximately 11.1% mainly due to refinancing of existing loans at lower interest rates.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022 and 31 December 2021, the Group's key financial position indicators are as follows:

	30 Jun 2022 S\$'000	31 December 2021 S\$'000
Current assets	10,611	12,356
Current liabilities	13,230	14,653
Net current liabilities	(2,619)	(2,297)
Interest-bearing bank borrowings	97,854	81,182
Equity	73,217	71,900
Gearing ratio	133.6%	112.9%

The overall net current liabilities of the Group increased by approximately S\$0.3 million, primarily due to decrease in prepayments for acquisition of First Capital Pte Ltd and partially offset by repayment of borrowings.

As at 30 June 2022, the Group had aggregate outstanding bank borrowings of approximately S\$97.9 million, which was an increase of S\$16.7 million or 20.6% from approximately S\$81.2 million as at 31 December 2021. The increase was mainly due to the S\$6.0 million loan taken to finance the existing investment property at 744 Bedok Reservoir Road in May 2022, S\$11.6 million loan taken to finance the acquisition of First Capital Pte Ltd in May 2022 and S\$3.8 million loan taken to finance the acquisition of 15 Crane Road in June 2022. These were partially 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 carry a weighted average effective interest rate of approximately 1.48%.

The Group had unutilised banking facilities of at least S\$10.5 million as at 30 June 2022. 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 2022, the gearing ratio is approximately 133.6%, compared to approximately 112.9% as at 31 December 2021. The increase in gearing ratio was mainly attributable to increase in borrowings during the Reporting Period.

Use of proceeds

The shares of the Company were listed on the Main Board of the Stock Exchange on 6 March 2019 for which the Company issued 200,000,000 new shares at HK\$0.75 per offer share on 6 March 2019, as set out in the announcement of the Company dated 5 March 2019. After deducting related listing expenses, the net proceeds of the Share Offer were approximately HK\$110.0 million (the “**Net Proceeds**”).

	Net Proceeds allocated <i>(HK\$'000)</i>	Approximate Percentage of Net of Proceeds	Utilised as at 30 June 2022 <i>(HK\$'000)</i>	Balance as at 30 June 2022 <i>(HK\$'000)</i>
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 system	6,270	6%	(1,703)	4,567
6 General working capital	11,110	10%	(11,110)	–
Total	<u>110,000</u>	<u>100%</u>	<u>(105,433)</u>	<u>4,567</u>

The Group expects to utilise the balance of the net proceeds in a conservative manner on or before 30 September 2022. 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 2022, 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 2022, the Group pledged certain of its property, plant and equipment, investment properties and bank deposit amounting to approximately S\$152,527,000 (31 December 2021: approximately S\$125,468,000) 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 2022, the Group had 351 employees (31 December 2021: 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 C.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 three executive Directors 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.

EVENTS AFTER THE REPORTING PERIOD

There was no material event in relation to the Group occurred after 30 June 2022.

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 2022 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 2022

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