Kafelaku Coffee Holding Limited
猫屎咖啡控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

The board (the "**Board**") of directors (the "**Directors**") of Kafelaku Coffee Holding Limited (the "**Company**", together with its subsidiaries, collectively known as the "**Group**") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2024 (the "**Period**") together with the comparative figures for the corresponding period in 2023 (the "**Previous Period**") as set out below.

FINANCIAL HIGHLIGHTS

For the Period, the Group's operating results were as follows:

– revenue of the Group amounted to approximately HK$74.5 million, representing a decrease of approximately 20.3% as compared with the Previous Period.

– loss attributable to owners of the Company amounted to approximately HK$13.9 million, representing an increase in loss by approximately HK$9.8 million as compared with approximately HK$4.1 million for the Previous Period.

– loss per share was approximately HK1.23 cents.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	4	**74,514**	93,456
Other income	5	**279**	836
Cost of materials consumed		**(31,395)**	(32,916)
Employee benefits expense		**(25,118)**	(26,524)
Depreciation	6	**(10,561)**	(14,820)
Reversal of impairment loss (impairment loss) on trade receivables under expected credit loss model, net		**19**	(21)
Impairment loss on property, plant and equipment		**(17)**	–
Impairment loss on right-of-use assets		**(287)**	–
Other operating expenses	6	**(18,367)**	(19,347)
Finance costs	7	**(2,924)**	(4,286)
Loss before taxation		**(13,857)**	(3,622)
Taxation	8	**(40)**	(486)
Loss for the period		**(13,897)**	(4,108)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**740**	1,398
Total comprehensive expense for the period		**(13,157)**	(2,710)
Loss attributable to:			
Owners of the Company		**(13,897)**	(4,105)
Non-controlling interests		**–**	(3)
		(13,897)	(4,108)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(13,272)**	(2,930)
Non-controlling interests		**115**	220
		(13,157)	(2,710)
		HK cent	*HK cent*
Basic and diluted loss per share	10	**(1.23)**	(0.37)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	Notes	**30 June 2024** *HK$'000* **(unaudited)**	31 December 2023 *HK$'000* (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	**11,511**	15,450
Right-of-use assets	12	**35,465**	43,771
Deposits, prepayments and other receivables		**8,183**	6,922
Deferred tax assets		**3,498**	3,582
		58,657	69,725
Current assets			
Inventories		**7,294**	9,785
Trade receivables	13	**1,672**	1,713
Deposits, prepayments and other receivables		**8,612**	9,802
Tax recoverable		**–**	103
Cash and cash equivalents		**35,354**	16,880
		52,932	38,283
Total assets		**111,589**	108,008
EQUITY			
Share capital	14	**12,998**	11,051
Reserves		**(51,958)**	(63,837)
Equity attributable to owners of the Company		**(38,960)**	(52,786)
Non-controlling interests		**(4,827)**	(4,942)
Total deficits		**(43,787)**	(57,728)

	Note	30 June 2024 HK$'000 (unaudited)	31 December 2023 HK$'000 (audited)
LIABILITIES			
Current liabilities			
Trade payables	15	**10,374**	10,439
Other payables and accruals		**57,097**	54,611
Amount due to a non-controlling shareholder		**1,365**	1,228
Amounts due to Directors		**5,298**	2,052
Contract liabilities		**14,406**	18,389
Lease liabilities		**22,043**	21,962
Provision for reinstatement costs		**1,950**	1,950
		112,533	110,631
Non-current liabilities			
Lease liabilities		**39,822**	52,024
Provision for reinstatement costs		**3,021**	3,081
		42,843	55,105
Total liabilities		**155,376**	165,736
Total deficits and liabilities		**111,589**	108,008
Net current liabilities		**(59,601)**	(72,348)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

1 GENERAL INFORMATION

Kafelaku Coffee Holding Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (2013 Revision) of the Cayman Islands. The address of the Company's registered office and principal place of business in Hong Kong are Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and 26/F, Chinachem Century Tower, 178 Gloucester Road, Wan Chai, Hong Kong, respectively. The Company is listed on the Main Board of the Stock Exchange. In the opinion of the Directors, the ultimate holding company of the Company is Kafelaku Coffee Industrial Limited, an entity incorporated in the British Virgin Islands, which is ultimately controlled by Mr. Liang Naiming ("**Mr. Liang**").

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of food and beverage services in Hong Kong and the People's Republic of China (the "**PRC**" or "**China**").

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the same as the functional currency of the Company.

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards ("**HKASs**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

During the Period, the Group recorded a consolidated net loss of approximately HK$13,897,000 and, as of 30 June 2024, the Group had net liabilities of approximately HK$43,787,000 and its current liabilities exceeded its current assets by approximately HK$59,601,000.

Notwithstanding the above results, the unaudited condensed consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's business operations in the future, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to obtain additional new source of financing such that the Group can meet its future working capital and financing requirements.

The Group has taken a number of measures to improve its liquidity position, including, but not limited to, the following:

(i) the Group plans to undergo a rebranding process and intends to develop coffee business such as setting up coffee shops and coffee trading business in the PRC so as to diversify the Group's catering business;

(ii) the Group is actively seeking additional new source of financing (including but not limited to bank borrowings) to finance the Group's working capital and improve the liquidity positions;

(iii) the Group will continue to take active measures to control costs through various channels including human resources optimisation and management remuneration adjustments; and

(iv) Mr. Liang, the ultimate controlling shareholder, an executive Director and the chairman of the Company (the "**Chairman**"), has agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations.

After taking into consideration of the above measures and the estimation on the future cash flows of the Group, the Directors are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Directors have prepared the unaudited condensed consolidated financial statements on a going concern basis.

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these unaudited condensed consolidated financial statements.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2024 for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the amendments to HKFRSs in the current interim period has had no material impact to the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the chief executive officer of the Company who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The Group is principally engaged in the operation of food catering services through a chain of restaurants. The CODM makes decisions about resources allocation and assesses performance of the Group based on the operating results and financial position of the Group as a whole as the Group's resources are integrated and no other discrete operating segment information is provided to the CODM.

Accordingly, the Directors are of the opinion that the operation of a chain of Chinese restaurants is a single reportable operating segment of the Group.

During the Period, there were no single external customers contributed more than 10% revenue of the Group (Previous Period: nil).

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2024 and 2023.

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from external customers		
Hong Kong	**10,424**	8,686
The PRC	**64,090**	84,770
	74,514	93,456

4 REVENUE

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from customers recognised at point in time		
Revenue from restaurant operations	**74,514**	93,456

5 OTHER INCOME

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income on short-term bank deposits	**27**	213
Government incentive and subsidies *(note)*	**77**	170
Sundry income	**175**	453
	279	836

Note: For both periods, the government incentive represented the amounts granted by the Economic Development Bureau of different districts in the PRC to support the Group's contribution to local economy with no unfulfilled conditions or contingencies and was recognised as other income upon receipts.

6 DEPRECIATION AND OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation on:		
– property, plant and equipment	**3,490**	4,921
– right-of-use assets	**7,071**	9,899
	10,561	14,820
Other operating expenses include the following items:		
Auditors' remuneration	**500**	478
Operating lease payments of premises		
– Contingent rent for premises	**203**	297
Lease payment not included in the measurement of lease liabilities	**441**	629
Building management fee and air conditioning charges	**3,298**	3,687
Advertising and promotion expenses	**675**	794
Laundry and sanitary expenses	**1,418**	1,565
Legal and professional fee	**931**	562
Repair and maintenance	**547**	56
Utility expenses	**2,053**	2,073
Penalty and related interest in relation to litigation	**2,446**	1,929

7 FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest expense on bank borrowings	**–**	341
Interest expense on lease liabilities	**2,924**	3,945
	2,924	4,286

8 TAXATION

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax – The PRC	**40**	–
Deferred tax	**–**	486
Total taxation for the period	**40**	486

No provision for Hong Kong Profits Tax is made in the unaudited condensed consolidated financial statements as the Group has no assessable profits derived in Hong Kong for both periods.

Under the Law of the PRC on Enterprise Income Tax ("**EIT**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

During the Previous Period, no provision for the EIT in the PRC was made in the unaudited condensed consolidated financial statements as the Group had sufficient tax losses brought forward available to offset the estimated assessable profits.

9 DIVIDEND

The Board has resolved not to declare the payment of any dividend for the Period (Previous Period: nil).

10 LOSS PER SHARE

The calculation of basic loss per share of the Company (the "**Share**") attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to the owners of the Company	**(13,897)**	(4,105)

	2024	2023
	'000	*'000*
Number of Shares		
Weighted average number of ordinary Shares for the purpose of calculating basic loss per Share	**1,129,835**	1,105,100

The diluted loss per Share is equal to basic loss per Share as there was no potential dilutive ordinary Shares outstanding during both periods.

11 PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group had not acquired any property, plant and equipment (Previous Period: at a cost of HK$29,000).

12 RIGHT-OF-USE ASSETS

	Premises
	HK$'000
Cost	
As at 1 January 2024 (audited)	**126,706**
Exchange realignment	**(2,821)**
As at 30 June 2024 (unaudited)	**123,885**
Accumulated depreciation and impairment	
As at 1 January 2024 (audited)	**82,935**
Charge for the period	**7,071**
Impairment loss	**287**
Exchange realignment	**(1,873)**
As at 30 June 2024 (unaudited)	**88,420**
Carrying amount	
As at 30 June 2024 (unaudited)	**35,465**
As at 31 December 2023 (audited)	**43,771**

13 TRADE RECEIVABLES

	30 June 2024	31 December 2023
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**1,852**	1,912
Less: allowance for expected credit loss ("**ECL**")	**(180)**	(199)
	1,672	1,713

The Group's sales from its restaurant operations are mainly conducted in cash or by credit cards. The credit period granted by the Group to its customers is within 30 days. The ageing analysis of trade receivables, net of allowance for ECL is as follows based on invoice date:

	30 June 2024 *HK$'000* **(unaudited)**	31 December 2023 *HK$'000* (audited)
1 to 30 days	**1,493**	1,488
31 to 60 days	**52**	67
61 to 90 days	**31**	17
Over 90 days	**96**	141
	1,672	1,713

14 SHARE CAPITAL

	Number of Ordinary Shares	**Nominal value of Ordinary Shares** *HK$'000*
Authorised:		
Ordinary Shares of HK$0.01 each as at 31 December 2023 (audited) and 30 June 2024 (unaudited)	**2,000,000,000**	**20,000**
Issued and fully paid:		
As at 1 January 2023 (audited), 30 June 2023 (unaudited) and 1 January 2024 (audited)	**1,105,100,000**	**11,051**
Issue of Shares *(note)*	**194,650,000**	**1,947**
As at 30 June 2024 (unaudited)	**1,299,750,000**	**12,998**

Note: On 14 May 2024, the Company and the placing agent entered into the placing agreement, pursuant to which the Company had conditionally agreed to place through the placing agents of up to 221,020,000 placing Shares (the "**Placing**" and the "**Placing Shares**", respectively) to not less than six placees at the HK$0.144 per Placing Shares. The Placing was completed on 7 June 2024. An aggregate of 194,650,000 Placing Shares had been placed to not less than six placees at HK$0.144 per Placing Shares pursuant to the terms and conditions of the placing agreement. The gross proceeds and the net proceeds (after deduction of the relevant expenses and fees) from the Placing amounted to approximately HK$28,030,000 and HK$27,098,000, respectively. Please refer to the section "Placing of New Shares under General Mandate" in this announcement for further details.

15 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	30 June 2024	31 December 2023
	HK$'000	*HK$'000*
	(unaudited)	(audited)
1 to 30 days	**2,940**	4,956
31 to 60 days	**–**	1,841
61 to 90 days	**895**	1,181
Over 90 days	**6,539**	2,461
	10,374	10,439

BUSINESS AND OPERATIONAL REVIEW

The principal activities of the Group are provision of food and beverage services and we are recognised for delivering Cantonese cuisine and Chinese banquet and dining services.

For the Period, the Group operated one full-service restaurant in Hong Kong under the brand name of "**Li Bao House (利寶會館)**" (the "**Central Restaurant**") (i.e. a new high class Chinese restaurant of the Group). The Group also operated three full-service restaurants in Shenzhen, the PRC, under the brand name of "**Star of Canton (利寶閣)**".

The Group's results were adversely affected by the challenging business environment in both China and Hong Kong. The Group remained vigilant by constantly adjusting the menu mix and taking measures to optimize operations and enhance production efficiency, so as to cope with the unpredictable market environment and consumer behavior change.

The management of the Group periodically evaluates the business potential, location, customer traffic, store layout and rental terms of the Group's existing and potential restaurants. In response to the prevailing operating environment in Hong Kong, the Group has in place active cost control measures to ensure that the resources of the Group are deployed efficiently. The Group will continue to strengthen its position in operating restaurants in Hong Kong and the PRC and look for suitable opportunities to expand our business in the regions.

All of the Group's restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations. The Group maintains a business philosophy of offering quality food and beverage services at reasonable prices in an elegant and comfortable dining setting. All of the Group's restaurants target at mid-to-high-end spending customers.

As at 30 June 2024, the Group had,

In Hong Kong:

(i) one restaurant, which was located in Central (i.e. the Central Restaurant); and

In Shenzhen, the PRC:

(ii) three restaurants, which were located in Futian District (i.e. the Shenzhen Restaurant and the Shenzhen One Avenue Restaurant) and Baoan District (i.e. the Shenzhen Uniwalk Restaurant), respectively.

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded a total revenue of approximately HK$74.5 million, representing a decrease of approximately 20.3% as compared to approximately HK$93.5 million for the Previous Period.

The Group's total revenue for the Period mainly comprised:

(1) the revenue of the Central Restaurant amounted to approximately HK$10.4 million (Previous Period: approximately HK$8.7 million), representing an increase of approximately 19.5%. Such increase was mainly due to full operations during the Period as compared to newly open in the Previous Period, and

(2) the aggregate revenue of the three restaurants in Shenzhen, the PRC, amounted to approximately HK$64.1 million (Previous Period: approximately HK$84.8 million), representing a decrease of approximately 24.4%. Such decrease was mainly due to the weak business environment in the PRC during the Period.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$43.1 million for the Period, representing a decrease of approximately 28.8% from approximately HK$60.5 million for the Previous Period, which was in line with the decrease in revenue during the Period. Nevertheless, the Group's overall gross profit margin decreased to approximately 57.9% (Previous Period: approximately 64.8%) as (1) the Group offered more concessions to attract customers in view of the sluggish economy during the Period; and (2) a lower gross profit margin in restaurant of Hong Kong.

Employee benefits expense

Employee benefits expense approximately HK$25.1 million for the Period (Previous Period: approximately HK$26.5 million). Despite of the reduction of staff head counts, the employee benefits expense has remained at a similar level due to the increase of wages and allowance of the Group as compared to the Previous Period. Going forward, the Group will continue to closely monitor the cost control in respect of staff salaries, and at the same time regularly review the work allocation of the staff in order to improve the work efficiency and maintain a quality standard of service.

Depreciation

Depreciation for the Period in respect of right-of-use assets in relation to the Group's leased properties was approximately HK$7.1 million (Previous Period: approximately HK$9.9 million).

Other operating expenses

Other operating expenses mainly include, but not limited to, expenses incurred for the Group's restaurant operation, consisting of building management fee and air conditioning charges, cleaning and laundry expenses, utility expenses, service fees paid to temporary workers, advertising and promotion. For the Period, other expenses amounted to approximately HK$18.4 million (Previous Period: approximately HK$19.4 million), representing a decrease of approximately HK$1.0 million or 5.2%. Such decrease was mainly due to the combined effects of (i) cost control; (ii) a decrease in lease payment; (iii) a decrease in staff benefits associated with the decrease of revenue; and (iv) the reduction of building, management fee and air conditioning charge.

Impairment loss on right-of-use assets

The net impairment loss on right-of-use assets amounting to approximately HK$287,000 (Previous Period: nil), recognized in the Period was due to the unsatisfactory performance of the Chinese restaurants in the PRC. Due to the above indicator of impairment, the impairment loss was identified when the carrying amount of the right-of-use assets was below its recoverable amount.

Finance costs

Finance costs for the Period included approximately HK$2.9 million (Previous Period: approximately HK$4.3 million) in respect of interest expense on lease liabilities in relation to the Group's leased properties.

Loss attributable to owners of the Company

For the Period, the Group recorded a loss attributable to owners of the Company of approximately HK$13.9 million (Previous Period: approximately HK$4.1 million), representing an increase in net loss attributable to owners of the Company by approximately HK$9.8 million as compared to the Previous Period. This was mainly due to declining of the Group's revenue and overall gross profit margin for the Period attributable to the weak economies of both China and Hong Kong.

Liquidity, financial resources and capital structure

Capital Structure

The Group's objectives in managing capital are to safeguard its ability to continue as a going concern in order to provide returns for the shareholders of the Company (the "**Shareholders**") and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the Shareholders, return capital to the Shareholders, issue new shares or sell assets to reduce debt.

As at 30 June 2024, the Group's gearing ratio, which is calculated based on the interest-bearing debts (excluding lease liabilities) divided by total equity attributable to owners of the Company (the "**Shareholder's Equity**"), was irrelevant as the Company has recorded a deficit in its Shareholders' Equity as at 30 June 2024. The Directors, taking into account the nature and scale of operations and capital structure of the Group, will closely monitor the gearing ratio and will adjust its business strategies to improve it to a reasonable level.

As at 30 June 2024, the Group's cash and bank balances were approximately HK$35.4 million, representing an increase of approximately HK$18.5 million as compared with approximately HK$16.9 million as at 31 December 2023. The increase was mainly due to the increase in cash inflow from the Placing during the Period.

As at 30 June 2024, cash and bank balances of approximately HK$35.4 million included HK$26.0 million and HK$9.4 million which were denominated in HK$ and Renminbi ("**RMB**"), respectively.

Indebtedness and Banking Facilities

As at 30 June 2024, the Group had no bank borrowings (31 December 2023: Nil).

Foreign Exchange Exposure

Most of the income and expenditures of the Group are denominated in HK$ and RMB, which are the functional currencies of the respective group entities. Even HK$ is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the Period. Thus there is no significant exposure expected on RMB transactions and balances. Hence, the Group does not have any material foreign exchange exposure. During the Period, the Group had not used any financial instruments for hedging purposes.

Placing of New Shares under General Mandate

Reference is made to the Company's announcements dated 14 May 2024 and 7 June 2024 (collectively, the "**Placing Announcements**"). The Company has successfully placed on 7 June 2024 a total of 194,650,000 new Shares under the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 20 June 2023. The net proceeds (after deducting the placing commission, professional fees and all related expenses) were approximately HK$27.1 million.

Please refer to the Placing Announcements and the section headed "Use of proceeds from the Placing" in this announcement for details of the Placing and intended uses of the Placing proceeds.

Securities in Issue

As at 30 June 2024, there were 1,299,750,000 ordinary Shares in issue. The Company has alloted and issued additional 194,650,000 shares during the Period. Details of which are set out above with sub-heading "Placing of New Shares under General Mandate". Save as disclosed above, there was no other movement in the issued share capital of the Company during the Period.

Commitments

As at 30 June 2024, the Group had no significant outstanding contracted capital commitments.

Charge on Assets

As at 30 June 2024, the Group did not have any charge over its assets.

Contingent Liabilities

On 31 December 2019, Excel Linker (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company received a Writ of Summons together with an indorsement of claim dated 31 December 2019 issued in the High Court of Hong Kong (the "**Excel Linker Court Action**") by Foxhill Investments Limited as plaintiff against Excel Linker (Hong Kong) Limited as defendant. For details, please refer to the announcement of the Company titled "Inside Information – Litigation" dated 6 January 2020. A provision of HK$15.8 million has been made in the unaudited condensed consolidated financial statements for the Period (31 December 2023: HK$13.4 million). The Company is of the view that the Excel Linker Court Action did not and will not have any material adverse impact on the ordinary operation and financial positions of the Group. To the best knowledge of the Directors, no trial in relation to the Excel Linker Court Action has been scheduled up to the date of this announcement.

Save as disclosed above, as at 30 June 2024, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 399 employees as at 30 June 2024 (as at 30 June 2023: approximately 475 employees). The staff head count decreased by approximately 16% as compared to 2023 which was mainly due to reduction in revenue during the Period. The employee benefits expense, including Directors' emoluments, of the Group was approximately HK$25.1 million for the Period (Previous Period: approximately HK$26.5 million). The remuneration policy of the Group is based on merit, performance and individual competence.

The Directors and the senior management of the Company (the "**Senior Management**") receive compensation in the form of salaries and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group regularly reviews and determines the remuneration and compensation package of the Directors and the Senior Management by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the Senior Management and the performance of the Group.

The remuneration committee of the Company reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors and Employees may also receive share awards or options to be granted under the share scheme of the Company (the "**Share Scheme**") adopted by the Company on 24 May 2024.

Dividend

The Directors have resolved not to declare any payment of dividend for the Period (Previous Period: nil).

Prospects

The Directors believe that, from the perspective of mid-to-longer terms, both the governments of China and Hong Kong will gradually implement various economic stimulating policies so as to boost the consumers' confidence which would result in an improvement of and an increase in the revenue of the catering industry in both China and Hong Kong. However, the catering industry still faces several challenges and the business environment remains weak as compared to that before the coronavirus 2019 pandemic. The Directors anticipate that the Group's business will face various challenges in the foreseeable future. The Group's key risk exposures and uncertainties are summarised as follows:

(i) the Hong Kong and China economies may be further worsened as a result of the unfavourable development of the China-US trade war, the Ukraine war and the Israel-Gaza war, which would negatively affect the consumption sentiments of the general public and consequently the retail and catering sectors;

(ii) the unforeseeable trend of in interest rates in Hong Kong may affect the consumers' spending sentiments which will adversely affect the business of the Group's restaurants in the year to come;

(iii) the Group's future success relies heavily on its ability to constantly offer new menu items, creatively-designed banquet and dining services based on changing market trends and changing tastes, dietary habits, expectations and other preferences of the Group's target customers. As such, significant costs on survey and research of customer trends and preferences and on developing and marketing of new menu items, banquet and dining services may be required, this may place substantial burden on the Group's managerial and financial resources;

(iv) the operation of the Group may be affected by the price of the food ingredients, including the price of the imported food ingredients which will be affected by the fluctuating exchange rate; and

(v) there may be labour shortage in the future and intensive competition for qualified individuals in the food and beverage industry.

Going forward, the Group will continue to utilise available resources to implement its business strategies, namely, steady growth and prudent expansion in Hong Kong with its multi-brand strategy, progressive expansion in the PRC market, continuing promotion of brand image and recognition through marketing initiatives, enhancement of existing restaurant facilities and strengthening of staff training aiming to attract more new customers. In this process, the Group will continue to maintain its commitment to quality as always. For the time being, the Group will put more effort into online marketing to promote existing business and to increase market share. In addition, the Group plans to undergo a rebranding process and intends to develop civet coffee business such as setting up coffee shops and coffee trading business in the PRC so as to diversify the Group's food and beverage business.

The Group will also consider the expansion of its food and beverage business into other types of cuisines and operation modes when opportunities arise, taking into account the Group's available resources, with the aim to maximize the return to its Shareholders.

Use of proceeds from the Placing

Reference is made to the Placing Announcements. The Company has successfully placed on 7 June 2024 a total of 194,650,000 new Shares under the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 20 June 2023. The net proceeds (after deducting the placing commission, professional fees and all related expenses) were approximately HK$27.1 million. For details, please refer to the Placing Announcements.

As at 30 June 2024, the planned use of the net proceeds from the Placing and the actual use of net proceeds up to 30 June 2024 were as follows:

	Planned use of net proceeds as stated in the Placing announcement dated 7 June 2024 *HK$'000*	**Actual use of net proceeds up to 30 June 2024** ***HK$'000***
For developing of civet coffee businesses in Hong Kong and in the PRC	16,260	–
For replenishing the business operations and general working capital of the Group	10,840	3,422

As at 30 June 2024, approximately HK$3.4 million out of the net proceeds from the Placing had been used in accordance with the planned usage as detailed above. The portion of net proceeds yet to be used was deposited in licensed banks in Hong Kong and China, and is expected to be progressively utilised by 2024 in accordance with the planned usage.

Event after the Period

The Board is not aware of any other important event affecting the Group after the Period and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to ensure a high standard of corporate governance in the interests of the Shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company's corporate governance practices are based on the principles and code provisions as set out in the section headed "Part 2 – Principles of good corporate governance, code provisions and recommended best practices" of Corporate Governance Code (the "**CG Code**") in Appendix C1 to the Listing Rules. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code for the Period, except for certain deviations as specified with considered reasons for such deviations which are explained below.

Under Code Provision C.2.1 of the CG Code, the roles of the Chairman and the chief executive officer should be separated and should not be performed by the same individual.

During the Period, the Company has not separated the roles of Chairman and the chief executive officer of the Company (the "**CEO**"). Mr. Liang was the Chairman and the CEO and is responsible for overseeing the operations of the Group during the Period.

In view of the fact that Mr. Liang has the relevant food and beverage operation and management experience since 2003, the Board believes that it is in the best interests of the Group to have Mr. Liang taking up both roles for effective management and business development.

The Board also believes that vesting the roles of both the Chairman and the CEO in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group.

Although the roles of the Chairman and the CEO has been performing by a single person during the Period, the division of responsibilities between the two roles is clearly established. While the Chairman is responsible for supervising the functions and performance of the Board, the CEO is responsible for the management of the Group's business. The Board considers that the balance of power and authority for the present arrangement will not be impaired given the appropriate delegation of the power of the Board to the Senior Management for the day-to-day management of the Group, and the effective functions of the independent non-executive Directors representing at least one-third of the Board such that no one individual has unfettered power of decisions. This structure will also enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of the Chairman and the CEO at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

The Board will periodically review the Company's corporate governance functions and will continuously improve the Company's corporate governance practices by assessing their effectiveness with evolving standards to meet changing circumstances and needs.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the Shares (the "**Code of Conduct**"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased or sold (including sale of treasury shares, if any) any of the Company's listed securities during the Period.

The Company did not redeem any of its listed securities during the Period.

As at 30 June 2024, the Company did not hold any treasury shares.

SHARE OPTION SCHEME

The share option scheme of the Company which was adopted pursuant to a resolution passed by the then Shareholders on 16 June 2016 has been terminated by a resolution passed by the Shareholders on 24 May 2024. For details, please refer to the Company's circular and announcement dated 29 April 2024 and 24 May 2024, respectively.

SHARE SCHEME

The share scheme of the Company (the "**Share Scheme**") was adopted pursuant to a resolution passed by the Shareholders on 24 May 2024 for the purposes of (a) binding the interests of the Shareholders, the Company and its employees to focus on the realisation of the Company's strategic development objectives and driving the performance growth; (b) improving the Group's long-term incentive mechanism to attract and retain outstanding talents and to fully mobilise the senior management team and core employees; and (c) retaining or otherwise maintaining on-going relationships with eligible participants. Eligible participants of the Share Scheme include the Company's full-time employees, Directors (other than independent non-executive Directors), directors and full-time employees of the holding company, fellow subsidiaries or associated companies of the Company, independent contractor(s), consultant(s) and advisor(s), suppliers and business partners.

The Share Scheme became effective on 24 May 2024 (the "**Adoption Date**") and, unless otherwise terminated, will remain in force for 10 years commencing on the Adoption Date, the principal terms of which were summarised in Appendix III of the Company's circular dated 29 April 2024.

No option or award was granted by the Company under the Share Scheme during the Period and there was no outstanding option under the Share Scheme as at 30 June 2024.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee reviews, amongst others, the financial information of the Group, the relationship with and terms of appointment of the external auditors, and the Company's financial reporting system, internal control system and risk management system.

The Audit Committee consists of three independent non-executive Directors, chaired by Mr. Liu Huaiyu and the other two members are Mr. Wong Chun Peng Stewart and Ms. Zhang Guangfang.

The unaudited interim financial results of the Group for the Period have been reviewed by the Audit Committee.

By Order of the Board
Kafelaku Coffee Holding Limited
Liang Naiming
Chairman and Executive Director

Hong Kong, 28 August 2024

As at the date of this announcement, the executive Directors are Mr. Liang Naiming and Mr. Ma Xiaoping; the non-executive Director is Mr. Cui Zifeng; and the independent non-executive Directors are Mr. Wong Chun Peng Stewart, Mr. Liu Huaiyu and Ms. Zhang Guangfang.