# LONGHUI INTERNATIONAL HOLDINGS LIMITED
# 龍輝國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1007)**

## ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

### UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of Longhui International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") has not been completed. In the meantime, the board (the "Board") of directors (the "Director(s)") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

**UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2019*

| | *Notes* | **2019** **RMB'000** **(Unaudited)** | 2018 *RMB'000* (Audited) |
|---|---|---|---|
| Revenue | *3* | **418,565** | 624,707 |
| Foods and beverage and other materials consumables used | | **(167,726)** | (253,798) |
| Employee benefit and related expenses | | **(149,376)** | (166,008) |
| Property rentals and related expenses | | **(31,160)** | (144,098) |
| Utilities expenses | | **(19,968)** | (20,841) |
| Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset | | **(126,845)** | (54,017) |
| Other expenses | | **(39,969)** | (50,837) |
| Other gains, net | | **3,769** | 2,977 |
| **Loss from operating activities** | *4* | **(112,710)** | (61,915) |
| Deemed listing expenses | | — | (399,670) |
| Finance expense, net | *5* | **(17,771)** | (668) |
| **Loss before tax** | | **(130,481)** | (462,253) |
| Income tax credit | *6* | **2,234** | 10,625 |
| **Loss for the year** | | **(128,247)** | (451,628) |
| **Loss attributable to:** | | | |
| Owners of the Company | | **(127,513)** | (451,095) |
| Non-controlling interest | | **(734)** | (533) |
| | | **(128,247)** | (451,628) |

| | Note | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Audited) |
| **Loss for the year** | | **(128,247)** | (451,628) |
| Other comprehensive (loss)/income, net of income tax | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Currency translation differences | | **(912)** | 2,283 |
| **Total comprehensive loss for the year** | | **(129,159)** | (449,345) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the Company | | **(128,425)** | (448,812) |
| Non-controlling interest | | **(734)** | (533) |
| | | **(129,159)** | (449,345) |
| **Loss per share** | *7* | | |
| — Basic (cents) | | **(0.02)** | (0.10) |
| — Diluted (cents) | | **(0.02)** | (0.10) |

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2019*

| | Notes | As at 31 December 2019 RMB'000 (Unaudited) | As at 31 December 2018 RMB'000 (Audited) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **39,034** | 69,270 |
| Right-of-use assets | | **123,444** | — |
| Intangible asset | | **100** | 309 |
| Prepayment and other receivables | | **22,719** | 22,717 |
| Deferred tax assets | | **26,150** | 26,349 |
| | | **211,447** | 118,645 |
| **Current assets** | | | |
| Inventories | | **27,098** | 31,387 |
| Trade receivables | *8* | **5,907** | 16,988 |
| Prepayments and other receivables | | **55,534** | 78,513 |
| Restricted cash | | — | 26,286 |
| Cash and cash equivalents | | **5,338** | 51,631 |
| | | **93,877** | 204,805 |
| **Total assets** | | **305,324** | 323,450 |
| **Capital and reserves** | | | |
| Share capital | *9* | **109** | 87 |
| Reserves | | **(81,390)** | (36,764) |
| | | **(81,281)** | (36,677) |
| **Non-controlling interest** | | **(690)** | 44 |
| **Total equity** | | **(81,971)** | (36,633) |

| | Notes | As at 31 December 2019 RMB'000 (Unaudited) | As at 31 December 2018 RMB'000 (Audited) |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | | **107,837** | — |
| Convertible bonds | | **2,942** | 72,892 |
| Other non-current liabilities | | **—** | 22,369 |
| Deferred tax liabilities | | **166** | 6,535 |
| | | **110,945** | 101,796 |
| **Current liabilities** | | | |
| Trade payables | *10* | **52,865** | 63,933 |
| Other payables and accruals | | **134,609** | 131,784 |
| Contract liabilities | | **42,824** | 39,343 |
| Income tax payables | | **892** | 797 |
| Borrowings | | **—** | 22,430 |
| Lease liabilities | | **45,160** | — |
| | | **276,350** | 258,287 |
| **Total liabilities** | | **387,295** | 360,083 |
| **Total equity and liabilities** | | **305,324** | 323,450 |
| **Net current liabilities** | | **(182,473)** | (53,482) |

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

Longhui International Holdings Limited (the "Company"), formerly known as Daqing Dairy Holdings Limited, is a limited company incorporated in the Cayman Islands on 15 October 2009. As announced by the Company on 30 July 2018, the English and Chinese names of the Company have been changed to "Longhui International Holdings Limited" and "龍輝國際控股有限公司" respectively. According to the register of substantial shareholders maintained by the Company as at 31 December 2019, Shui Chak Group Limited ("Shui Chak Group") is the substantial corporate shareholders of the Company. The ultimate controlling party of Shui Chak Group Limited is Mr. Hung Shui Chak ("Mr. Hung").

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 1502, 15/F, Lucky Building, 39 Wellington Street, Central, Hong Kong.

The Company acts as an investment holding company. Its subsidiaries are engaged in restaurants operation located in the People's Republic of China (the "PRC").

## 2.1 BASIS OF PREPARATION

This financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"). This financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

**Going concern basis**

The Group reported a consolidated net loss of approximately RMB128,247,000 (unaudited) for the current year and net current liabilities of approximately RMB182,473,000 (unaudited) as at 31 December 2019. The unrestricted cash and cash equivalent balance amounted to approximately RMB5,338,000 (unaudited) at 31 December 2019. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

During the year, the Directors have taken various measures with an aim to improve the Group's liquidity position. The Directors have prepared a cash flow forecast of the Group for the next twelve months based on the existing situation, the future events and commitments of the Group. The Directors considered that the Group will have adequate working capital to meet its obligations, therefore the unaudited consolidated financial statements of the Group have been prepared under a going concern basis. Measures and estimations have been taken into consideration by the Directors, including but not limited to:

(i) the substantial shareholders of the Company have given their consent to provide continuous financial support to the Group to enable the Group to meets its obligations when due;

(ii) negotiating with banks and other financial institution for new banking facilities;

(iii) management has been endeavoring to improve the Group's operating results and cash flows through various cost control measures and will slow down the opening of new restaurants or will close underperforming restaurants in the future;

(iv) negotiating with the landlords for rent concessions due to the reduced number of customers as overshadowed by the outbreak of COVID-19 coronavirus.

Notwithstanding the above, given the outbreak of COVID-19 coronavirus in early 2020 and the uncertainties to obtain continuous support by the banks and the Group's creditors, material uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above.

Should the Group fail to realise its plans to improve its financial position, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the unaudited consolidated statement of financial position as at 31 December 2019. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in these unaudited consolidated financial statements.

## 2.2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Company has applied, for the first time, the following new standard, amendments and interpretations ("new IFRSs") issued by the International Accounting Standard Board, (the "IASB") which are effective for the Group's financial year beginning 1 January 2019. A summary of the new IFRSs are set out as below:

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

Except as described below, the application of the new IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the unaudited consolidated financial statements.

**IFRS 16 Leases**

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

**Definition of a lease**

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

**As a lessee**

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

(iv) relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

When measuring lease liabilities for leases that were classified as operating leases, the Group discount future lease payments using the interest rate implicit to the lease or the incremental borrowing rate as of the date of initial application. The rate applied range from 4.57% to 6.50% (unaudited).

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

| | *RMB'000* |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 (audited) | 255,614 |
| Lease liabilities discounted at relevant incremental borrowing rates (unaudited) | 227,387 |
| Less: short-term leases recognised on a straightline basis as expense (unaudited) | (3,157) |
| Less: low-value leases recognised on a straightline basis as expense (unaudited) | (2,087) |
| Lease liabilities recognised at 1 January 2019 | 222,143 |
| Analysed as: | |
| — Current lease liabilities (unaudited) | 85,573 |
| — Non-current lease liabilities (unaudited) | 136,570 |
| | 222,143 |

The recognised right-of-use assets relate to the following types of assets:

| | **As at 1 January 2019** ***RMB'000*** |
|---|---|
| Shops | 178,858 |
| Offices | 16,038 |
| Warehouses | 557 |
| | 195,453 |

In summary, the following adjustments were made to the amounts recognised in the unaudited consolidated statement of financial position at the date of initial application (1 January 2019):

**Summary of effects arising from initial application of IFRS 16**

The table below illustrates effect of IFRS 16 at the date of initial application, 1 January 2019. Line item that were not affected by the changes have not been included.

| | Right-of-use assets RMB'000 | Prepayments and other receivables RMB'000 | Other payables and accruals RMB'000 | Other non-current liabilities RMB'000 | Lease liabilities RMB'000 | Accumulated losses RMB'000 |
|---|---|---|---|---|---|---|
| Closing balance at 31 December 2018 (audited) | — | 78,513 | (131,784) | (22,369) | — | (415,308) |
| Effect arising from initial application of IFRS 16: Remeasurement (unaudited) | 195,453 | (788) | 5,109 | 22,369 | (222,143) | — |
| Opening balance at 1 January 2019 (unaudited) | 195,453 | 77,725 | (126,675) | — | (222,143) | (415,308) |

**New and revised IFRSs that have been issued but are not yet effective**

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IAS 1 and IAS 8 (Amendments) | Definition of Material[2] |
| IFRS 3 (Amendments) | Definition of a Business[1] |
| IFRS 10 and IAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| IFRS 9, IAS 39 and IFRS 7 (Amendments) | Interest Rate Benchmark Reform[2] |
| IFRS 17 | Insurance Contracts[3] |

1 Effective for business combination and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for annual periods beginning on or after a date to be determined.

In addition to the above new and amendments to IFRSs, a revised "Conceptual Framework for Financial Reporting" was issued in 2018. Its consequential amendments, the "Amendments to References to the Conceptual Framework" in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The Directors anticipate that the application of all other new and revised IFRSs will have no material impact on the unaudited consolidated financial statements in the foreseeable future.

## 3. REVENUE AND SEGMENT INFORMATION

The Company's chief operating decision maker (the "CODM"). Management has determined the operating segments based on the information reviewed by CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from both brand and geographic perspective. The Group has a clear and distinct focus on the market segments that it appeals to and thus it creates the two brands of "Faigo" and "Xiao Faigo Hotpot". Faigo appeals to high-end market such as business clientele, high-end fashion conscious and young clientele. Restaurants operating under the brand Xiao Faigo Hotpot cater for the mid-end market where a wide spectrum of guests are targeted, principally families, friends and tourists. Geographically, all of the Group's operations are located in the PRC and the management separately considers the performance of Faigo in Shanghai and Beijing and Xiao Faigo Hotpot in Shanghai, Beijing, Wuxi, Nanjing and Hangzhou. Faigo and Xiao Faigo Hotpot in other cities have been aggregated into two separate reportable segments, respectively. The CODM assesses the performance of the operating segments based on the revenue and operating profits. The operating expenses of headquarters of Faigo and Xiao Faigo Hotpot are common costs incurred for the Faigo and Xiao Faigo Hotpot as a whole and therefore they are not included in the measure of the segments' performance, which is used by the CODM as a basis for the purpose of resource allocation, and assessment of segment performance. Finance income and expenses, other gains/losses including government grants and gain/loss of disposal of investment are not allocated to segments, as these types of activity are driven by the central treasury function of the Group.

There were no material inter-segment sales during the years. The revenue from external customers reported to the CODM are measured in a manner consistent with that applied in the unaudited consolidated statement of profit or loss and other comprehensive income.

### (A) Segment revenue

| | Year ended 31 December 2019 (Unaudited) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Faigo | | | | Xiao Faigo Hotpot | | | | | | | Unallocated | Total |
| | Shanghai | Beijing | Others | Subtotal | Shanghai | Beijing | Wuxi | Nanjing | Hangzhou | Others | Subtotal | | |
| Revenue | 73,923 | 9,463 | 6,990 | 90,376 | 204,473 | 30,175 | 25,725 | 5,610 | 4,316 | 57,890 | 328,189 | — | 418,565 |
| Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset | 8,737 | 372 | 8,994 | 18,103 | 68,520 | 13,077 | 4,798 | 1,935 | 1,581 | 18,748 | 108,659 | 83 | 126,845 |
| Operating profit/(losses) | 579 | (2,794) | (4,595) | (6,810) | (56,617) | (7,749) | 3,553 | (1,881) | (2,554) | (12,144) | (77,392) | (28,508) | (112,710) |
| Profit/(losses) before income tax | 469 | (3,244) | (5,063) | (7,838) | (64,983) | (8,723) | 3,159 | (2,137) | (2,917) | (13,701) | (89,302) | (33,341) | (130,481) |

| | Year ended 31 December 2018 (Audited) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Faigo | | | | Xiao Faigo Hotpot | | | | | | | Unallocated | Total |
| | Shanghai | Beijing | Others | Subtotal | Shanghai | Beijing | Wuxi | Nanjing | Hangzhou | Others | Subtotal | | |
| Revenue | 95,345 | 13,103 | 10,395 | 118,843 | 337,853 | 45,938 | 28,350 | 12,144 | 8,114 | 73,465 | 505,864 | — | 624,707 |
| Depreciation, amortisation and impairment of property, plant and equipment and intangible asset | 2,479 | 186 | 1,143 | 3,808 | 23,252 | 4,781 | 1,245 | 1,394 | 1,567 | 16,833 | 49,072 | 1,137 | 54,017 |
| Operating profit/(losses) | 13,908 | (2,774) | (2,119) | 9,015 | (29,390) | (3,996) | (2,466) | (1,056) | (706) | (6,391) | (44,005) | (26,925) | (61,915) |
| Profit/(losses) before income tax | 13,908 | (2,774) | (2,119) | 9,015 | (29,390) | (3,996) | (2,466) | (1,056) | (706) | (6,391) | (44,005) | (427,263) | (462,253) |

**(B) Geographical information**

The Group's revenue from external customers by location of sales and information about its non-current assets by location of assets are detailed as below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| The PRC | **418,565** | 624,707 | **211,447** | 118,645 |

**(C) Information about major customers**

The Group are primarily engaged in the operation of a hotpot restaurant chain.

The Group's customer base is diversified. No individual customer (unaudited) (2018: nil (audited)) had transactions which exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2019.

**(D) Disaggregation of revenue**

Revenue represents the sales value of goods supplied to customers (net of value-added tax, other sales tax and discounts). Disaggregation of revenue from contracts with customers by major product lines is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| **Revenue from contracts with customers within the scope of IFRS 15** | | |
| Disaggregated by major product lines | | |
| — Hotpot business | **418,565** | 624,707 |

The timing of revenue recognition of all revenue from contracts with customers is at a point in time.

## 4. LOSS FROM OPERATING ACTIVITIES

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Loss from operating activities has been arrived at after charging/(crediting): | | |
| Directors' emoluments | | |
| — Fees | **1,805** | 1,225 |
| — Retirement benefits scheme contributions | **—** | 8 |
| Auditors' remuneration | **1,600** | 1,000 |
| Depreciation of property, plant and equipment | **21,066** | 44,857 |
| Amortisation of intangible asset | **209** | 205 |
| Depreciation of right-of-use assets | **82,791** | — |
| Impairment of right-of-use assets | **8,009** | — |
| Impairment of property, plant and equipment | **14,770** | 8,955 |
| (Reversal)/impairment of allowance for expected credit loss on trade and other receivables | **(1,531)** | 57 |
| Forfeiture of deposit upon early termination of tenancy agreement | **—** | 1,431 |
| Loss on disposal of property, plant and equipment[1] | **5,587** | 2,065 |
| Professional service expenses[2] | **4,949** | 20,420 |
| Foreign exchange loss/(gain) | **54** | (534) |

[1] These items were grouped under other gains, net.

[2] These items were grouped under other operating expenses.

## 5. FINANCE EXPENSE, NET

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Finance income: | | |
| — Interest income on financing provided to related parties | **—** | 1,824 |
| — Interest income on cash and cash equivalents | **163** | 189 |
| | **163** | 2,013 |
| Finance expenses: | | |
| — Imputed interest on convertible bonds | **(4,838)** | (1,044) |
| — Interest expense on borrowings | **(877)** | (1,637) |
| — Interest expense on lease liabilities | **(12,219)** | — |
| | **(17,934)** | (2,681) |
| **Finance expense, net** | **(17,771)** | (668) |

## 6. INCOME TAX CREDIT

The income tax credit of the Group for the years are analysed as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| PRC Enterprise Income tax | | |
| — Current tax | **70** | 3,136 |
| — Over provision in prior year | **(1,705)** | — |
| Deferred income tax | **(599)** | (13,761) |
| Income tax credit | **(2,234)** | (10,625) |

**(a) Cayman Islands**

Entities incorporated in the Cayman Islands as exempted companies with limited liability.

**(b) British Virgin Islands income tax**

Entities incorporated in the British Virgin Islands as an exempted company with limited liability under the Company Law of British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

**(c) Hong Kong Profits Tax**

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the Year.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong for both years.

The two-tiered profits tax rates regime is applicable to the Group for the year ended 31 December 2019 and 2018.

**(d) PRC Enterprise Income Tax**

Entities incorporated in the PRC are generally subject to income tax rates of 25% (2018: 25%) throughout the years.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits based on existing legislations, interpretations and practices.

**(e) PRC withholding income tax**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower 5% withholding tax rate may be applied when the immediate holding companies established in Hong Kong satisfy the relevant conditions and requirements pursuant to the tax treaty arrangement between the PRC and Hong Kong and other applicable PRC laws. There is no provision of withholding tax made for the year ended 31 December 2019 as the directors have confirmed that the Group does not expect Shanghai Longhui Catering Management Company Limited ("Shanghai Longhui"), a subsidiary of the Group incorporated in the PRC, to distribute any retained earnings as at 31 December 2019 and 2018 in the foreseeable future.

## 7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

**Loss:**

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share | **127,513** | 451,095 |

Number of shares:

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Audited) |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **5,517,313,735** | 4,476,238,151 |

For the year ended 31 December 2019 and 2018, the computation of diluted loss per share does not assume that the conversion of the outstanding convertible bonds, since their conversion would result in a decrease in loss per share.

The weighted average number of share used for the purpose of calculating basic loss per share for the year ended 31 December 2019 is determined by reference to the number of shares in issue adjusted with the effect of convertible bonds converted during the year.

The weighted average number of shares used for the purpose of calculating basic loss per share for the year ended 31 December 2018 is determined by reference to the number of ordinary shares issued for the acquisition of Longhui International Catering Management Holdings Limited (the "Acquisition") and the number of ordinary shares outstanding after completion of the Acquisition.

## 8. TRADE RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **7,041** | 18,721 |
| Less: Allowance for credit loss | **(1,134)** | (1,733) |
| | **5,907** | 16,988 |

As at 31 December 2019 and 2018, the fair values of the trade receivables of the Group approximated their carrying amounts.

**(a)** The aging analysis of trade receivables, based on the invoice date and net of impairment loss were as follows:

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Up to 6 months | **4,886** | 14,493 |
| 6 months to 1 year | **1,021** | 2,495 |
| | **5,907** | 16,988 |

The Directors consider trade receivables mainly derived from sales through shopping malls or billed settled with credit cards, wechat or alipay, which are generally collectible within 1 month from sales date and no past due history.

No interest is charged on the trade receivables. The long aging balances are due from certain frequent customers and the management considers that these receivables are recoverable.

## 9. SHARE CAPITAL

**Share capital of the Company**

| | Number of shares | Amount *HK$'000* | *RMB'000* |
|---|---|---|---|
| **Authorised** | | | |
| As at 1 January 2018 (HK$0.00001 each) | 38,000,000,000 | 380 | 306 |
| Consolidated shares of HK$0.00002 each *(Note a)* | (19,000,000,000) | — | — |
| As at 31 December 2018, 1 January 2019 and 31 December 2019 (unaudited) (HK$0.0002 each) | 19,000,000,000 | 380 | 306 |

| | Number of shares | Amount in *HK$'000* | Amount in *RMB'000* |
|---|---|---|---|
| **Issued and fully paid** | | | |
| As at 1 January 2018 | 1,010,500,000 | 10 | 9 |
| Share consolidation *(Note a)* | (505,250,000) | — | — |
| Placing of shares *(Note b)* | 757,875,000 | 15 | 12 |
| Open offer *(Note c)* | 101,050,000 | 2 | 2 |
| Issue of Consideration Shares *(Note d)* | 3,789,375,000 | 76 | 64 |
| As at 31 December 2018 and 1 January 2019 (audited) | 5,153,550,000 | 103 | 87 |
| Conversion of convertible bonds *(Note e)* | 1,220,052,437 | 25 | 22 |
| As at 31 December 2019 (unaudited) | 6,373,602,437 | 128 | 109 |

*Notes:*

(a) On 4 July 2018, the Company consolidated every two (2) issued and unissued shares of HK$0.00001 each into one (1) consolidated share of HK$0.00002 each.

(b) On 4 July 2018, the Company completed the share placing to qualifying shareholders on the record date at placing price of HK$0.1025 and 757,875,000 ordinary shares have been issued and allotted with total proceeds received of approximately HK$77,682,000 (equivalent to approximately RMB65,632,000) (audited).

(c) On 4 July 2018, the Company completed the open offer on the basis of one (1) offer share for every five (5) consolidated shares at offer price of HK$0.1025 and 101,050,000 ordinary shares have been issued and allotted with total proceeds received of approximately HK$10,357,000 (equivalent to approximately RMB8,751,000).

(d) On 4 July 2018, the Company allotted and issued 3,789,375,000 consideration shares to the vendors for acquiring the entire equity interest of Longhui International Catering Management Holdings Limited in accordance with the terms of the acquisition agreement.

(e) On 15 July 2019 and 12 September 2019, the holders of the convertible bonds exercised the conversion right and the convertible bonds was converted into 1,220,052,437 ordinary shares of the Company of HK$0.1025 each. The conversion shares rank pari passu in all respects with the shares of the Company.

## 10. TRADE PAYABLES

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Unaudited) | (Audited) |
| Raw material payables | **52,865** | 63,933 |

As at 31 December 2019 and 2018, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Unaudited) | (Audited) |
| Less than 1 year | **46,170** | 61,144 |
| 1 to 2 years | **5,618** | 1,842 |
| 2 to 3 years | **984** | 853 |
| Over 3 years | **93** | 94 |
| | **52,865** | 63,933 |

As at 31 December 2019 and 2018, the carrying amount of the Group's trade payables were denominated in RMB.

## 11. EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 coronavirus since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position and performance. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: i) negotiating with the landlords for rent concessions due to the reduced number of customers as overshadowed by the outbreak of COVID-19 coronavirus; and ii) the Group will strengthen its promotional efforts to maintain the Group's competitiveness, including closely cooperating with online ordering and delivery platforms to promote the delivery business. The Group will keep its contingency measures under review as the situation evolves. As far as the Group's businesses are concerned, the outbreak has materially and adversely impacted the revenue from restaurants' operations, some debtors' repayment abilities and turnover of inventory. As the extent to which the outbreak of COVID-19 coronavirus will continue is uncertain, it is not practicable to estimate the full financial effect that the outbreak of COVID-19 coronavirus may have on the Group's businesses as at the date when the financial statements are authorised to issue.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is principally engaged in the hotpot restaurant business in the PRC. The Company has a clear and distinct focus on the market segments that it appeals to and thus it created three brands, namely Faigo ("輝哥"), Xiao Faigo Hotpot ("小輝哥火鍋") and Hong Yuanwai ("洪員外"). Restaurants operating under the brand Faigo appeal to the high-end market such as business clientele, while restaurants operating under the brands Xiao Faigo Hotpot ("小輝哥火鍋") and Hong Yuanwai ("洪員外") cater to the mid-tier market for a wide spectrum of guests.

The brand Faigo ("輝哥") specializes in seafood hotpot cuisine with a signature menu which is characterized by the aromatic soup base and a wide range of selection of seafood and beef. The Company started its first restaurant in Shanghai in 2004 under the brand Faigo and gradually expanded its restaurant network to other major cities in the PRC including Beijing, Shenzhen, Nanjing and Hangzhou since 2010.

In 2013, Sina Weibo, a popular social media in the PRC, chose the brand Faigo as one of the most popular restaurants amongst foodies — "2013年最受吃貨喜愛的人氣餐廳". In 2014, the Company was named as a five-star merchant by dianping.com, a widely used search engine for restaurants in the PRC. The brand Faigo was named as one of the top 10 hotpot brand in 2016 by the China Hotel Association. In 2018, Xiao Faigo Hotpot ("小輝哥火鍋") was awarded "China's Top 100 Hotpot Enterprises in 2017 (2017年度中國火鍋百強企業)" by China Cuisine Association.

Set forth below are certain key performance indicators of the restaurants under the brands Xiao Faigo Hotpot ("小輝哥火鍋") and Hong Yuanwai ("洪員外") in different regions in the PRC:

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue (in RMB)** | | |
| Shanghai | **204,473** | 340,704 |
| Beijing | **30,175** | 45,938 |
| Wuxi | **25,725** | 28,250 |
| Nanjing | **5,610** | 12,144 |
| Hangzhou | **4,316** | 8,114 |
| Other cities | **57,890** | 73,465 |
| Nationwide | **328,189** | 508,715 |
| **Number of restaurants** | | |
| Shanghai | **44** | 57 |
| Beijing | **7** | 9 |
| Wuxi | **4** | 4 |
| Nanjing | **—** | 2 |
| Hangzhou | **—** | 2 |
| Other cities | **16** | 18 |
| Nationwide | **71** | 92 |
| **Average customer per day per restaurant** *(note 1)* | | |
| Shanghai | **107.6** | 132.8 |
| Beijing | **87.8** | 115.2 |
| Wuxi | **145.4** | 145.5 |
| Nanjing | **72.4** | 92.1 |
| Hangzhou | **67.1** | 94.1 |
| Other cities | **54.4** | 95.6 |
| Nationwide | **94.6** | 122.3 |
| **Seat turnover rate per day per restaurant** *(note 2)* | | |
| Shanghai | **0.5** | 1.2 |
| Beijing | **0.8** | 1.0 |
| Wuxi | **1.3** | 1.3 |
| Nanjing | **0.7** | 0.8 |
| Hangzhou | **0.6** | 0.9 |
| Other cities | **0.6** | 0.9 |
| Nationwide | **0.9** | 1.2 |

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Average daily restaurant sales (in RMB)** *(note 3)* | | |
| Shanghai | **11,316.9** | 16,828.2 |
| Beijing | **11,246.7** | 14,551.2 |
| Wuxi | **17,620.1** | 18,290.4 |
| Nanjing | **8,752.1** | 11,859.8 |
| Hangzhou | **7,776.2** | 11,115.2 |
| Other cities | **8,918.4** | 11,295.3 |
| Nationwide | **10,976.9** | 15,317.8 |
| **Average spending per customer (in RMB)** *(note 4)* | | |
| Shanghai | **105.1** | 126.7 |
| Beijing | **128.1** | 126.3 |
| Wuxi | **121.1** | 125.7 |
| Nanjing | **120.9** | 128.8 |
| Hangzhou | **115.8** | 118.2 |
| Other cities | **164.0** | 118.2 |
| Nationwide | **116.0** | 125.2 |

*Notes:*

1. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.

2. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.

3. Calculated by dividing revenue for the year by total restaurant operation days during the year.

4. Calculated by dividing revenue before business tax/value added tax for the year by total customer traffic for the year.

Set forth below are certain key performance indicators of the restaurants under the brand Faigo ("輝哥") in different regions in the PRC:

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue (in RMB)** | | |
| Shanghai | **73,923** | 92,494 |
| Beijing | **9,463** | 13,103 |
| Other cities | **6,990** | 10,395 |
| Nationwide | **90,376** | 115,992 |
| **Number of restaurants** | | |
| Shanghai | **4** | 4 |
| Beijing | **1** | 1 |
| Other cities | **1** | 2 |
| Nationwide | **6** | 7 |
| **Average customer per day per restaurant** *(note 1)* | | |
| Shanghai | **50.6** | 65.1 |
| Beijing | **34.9** | 50.1 |
| Other cities | **30.2** | 61.3 |
| Nationwide | **40.0** | 62.2 |
| **Seat turnover rate per day per restaurant** *(note 2)* | | |
| Shanghai | **0.4** | 0.4 |
| Beijing | **0.9** | 1.3 |
| Other cities | **0.3** | 1.4 |
| Nationwide | **0.4** | 0.6 |
| **Average daily restaurant sales (in RMB)** *(note 3)* | | |
| Shanghai | **50,632.5** | 54,280.4 |
| Beijing | **25,925.9** | 35,898.8 |
| Other cities | **12,571.9** | 20,106.5 |
| Nationwide | **34,948.3** | 44,853.8 |

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Average spending per customer (in RMB)** *(note 4)* | | |
| Shanghai | **999.7** | 834.3 |
| Beijing | **742.2** | 717.7 |
| Other cities | **416.0** | 327.8 |
| Nationwide | **873.2** | 721.1 |

*Notes:*

1. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.

2. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.

3. Calculated by dividing revenue for the year by total restaurant operation days during the year/period.

4. Calculated by dividing revenue before business tax/value added tax for the year by total customer traffic for the year.

Having in-depth investigation, the Company closed down 27 underperforming restaurants and opened 5 restaurants in popular shopping malls during 2019. As at 31 December 2019, the Company owned and operated a total of 77 restaurants (2018: 99 restaurants). As at 31 December 2019, in addition to the restaurants owned and operated by the Group itself, the Group had also granted to an independent third party the right to operate one restaurant under the brand Faigo, in relation to which the Company received a monthly management fee and the results of that franchised restaurant was not consolidated in the Group's results.

The growing concern of food safety in the PRC from the consumers is an issue that each and every restaurant chain in the PRC needs to respond. The Company realizes that the reputation which takes years to build and protect can be ruined by one single food safety incident and therefore the Company attaches paramount importance to the safety and quality of food and has in place a reliable procurement system which ensures visibility and traceability of food ingredients throughout the catering service industry value chain. The staff of the Group also receives comprehensive training to minimize the risk of contamination during the preparation of foods before they are served at the table.

Since all restaurants operating under the brands owned by the Group are self-owned except the franchised restaurant in Beijing and one restaurant to be operated as a joint venture held as to 70% by the Group and 30% by an independent third party, this enables the Group to closely control the development of businesses in terms of quality of the foods, services standards and brand awareness.

Looking forward to 2020 taking product quality as our lifeline and upholding the philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade", we will continue to overcome challenges ahead and introduce more innovative ideas to consolidate our leading position in the catering industry, with an aim to develop into the brand with the highest market capitalization in the Asia-pacific catering industry. With our commitment to transformation and product quality, we are confident to build the Company as the leader of the casual restaurants in China.

## FINANCIAL REVIEW

### Revenue

Due to the slowdown in China's economic growth and the increasing uncertainty in the external environment, as well as the intense competition in the market, the Group's revenue decreased by approximately 33.0% from approximately RMB624.7 million in 2018 to approximately RMB418.6 million in 2019, mainly attributable to the challenging business environment during the year, which posed significant negative impact on the overall business operation and also inevitably led to the closure and suspension of certain restaurants of the Group.

### Foods and beverage and other materials consumables used

The Group's foods and beverage and other materials consumables costs mainly represents the costs of food ingredients for the hotpot business, and were the largest component of the Group's operating expenses. The foods and beverage and other materials consumables costs decreased by approximately 33.9% from approximately RMB253.8 million in 2018 to approximately RMB167.7 million in 2019. As a percentage of the Group's revenue, the Group's foods and beverage and other materials consumables costs remain stable from approximately 40.6% in 2018 to approximately 40.1% in 2019, mainly attributable to better procurement planning in order to minimize the material cost.

**Employee benefit and related expenses**

The Group's employee benefit and related expenses, being one of the largest components of the operating expenses of the Group, consist of wages and salaries, labour outsourcing expenses, defined contribution plan, other social security costs and housing benefits and other employee benefits.

The employee benefit and related expenses decreased by approximately 10.0% from approximately RMB166.0 million in 2018 to approximately RMB149.4 million in 2019, mainly attributable to reduction in manpower from company restructuring during the year.

The Group entered into an agreement with a third party agent who provides catering outsourcing services. Pursuant to this agreement, the Group outsources a portion of its low-level positions, such as waiter or waitress, kitchen assistants etc. The Group pays annual service fee and other related cost, such as training and social welfare. In order to minimise the labour cost, a new service contract will be entered into in 2020.

**Property rentals and related expenses**

The Group's property rentals and related expenses decreased by approximately 78.3% from approximately RMB144.1 million in 2018 to approximately RMB31.2 million in 2019, mainly attributable to closure and suspension of certain restaurants and the adoption of IFRS 16 "Leases" which effective from 1 January 2019.

**Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset**

The Group's depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset increased by approximately 134.8% from approximately RMB54.0 million in 2018 to approximately RMB126.8 million in 2019, mainly attributable to the adoption of IFRS 16 as mentioned above on the expenditures spent on the leases of the restaurants the Group operates.

The Group's impairment of property, plant and equipment and right-of-use assets amounted to approximately RMB22.8 million in 2019 mainly attributable to the closure and suspension of certain restaurants of the Group.

The Directors will continue to look for better control in the property, rental and related expenses, such as entering into long-term rental agreements so as to maintain the rental expenses at a reasonable level.

### Other expenses

The Group's other expenses, which mainly consist of cleaning fee, audit related fee, maintenance fee and professional fees, decreased by approximately 21.3% from approximately RMB50.8 million in 2018 to approximately RMB40.0 million in 2019 mainly attributable to decrease in legal and professional fee and absence of listing expenses arisen from 2018.

### Finance expense, net

The Group's finance expenses mainly represent interest expense on borrowings, imputed interest on convertible bonds and interest expense on lease liabilities.

The Group's net finance expense increased by approximately 2,442.9% from approximately RMB0.7 million in 2018 to approximately RMB17.8 million in 2019, mainly attributable to increase in finance expenses charged on lease liabilities amounting to approximately RMB12.2 million resulted from the adoption of IFRS 16 as mentioned above.

### Loss for the year

Loss for the year attributable to owners of the Company for 2019 was approximately RMB127.5 million, as compared with loss for the year of approximately RMB451.1 million for 2018. Basic loss per share for 2019 was approximately RMB0.02 cents, as compared with basic loss per share of approximately RMB0.1 cents for 2018. The net loss was mainly attributable to the challenging business environment during the year, which posed significant negative impact on the overall business operation and also inevitably led to the closure and suspension of certain restaurants of the Group and provision for impairment of property, plant and equipment and/or right-of-use assets in respect of these restaurants and certain underperforming restaurants of the Group during the year.

## PROSPECTS

The Group plans to open more restaurants in order to expand and develop the business of the Group in the coming financial years as intended. However, due to the current poor sentiment of the food and beverages market in the PRC and the uncertainty over the impact of the Sino-US trade war and the COVID-19 coronavirus outbreak, it is prudent for the Board to withhold the planned expansion.

### Targeting the High-End Segment

Hotpot restaurants offering meat as their major food ingredient have a lower customer's average spending compared with those serving seafood. Therefore, more hotpot restaurants begin to offer more diversified food materials to target different customer segments. Seafood has been introduced in hotpot restaurants recently, which will attract more customers from the high-end segment. The Group will continue to target more high-end food ingredients as additional drive for the growth of revenue of our restaurants.

**Inclusive of New Food Ingredients and Flavors**

New food ingredients will be added to hotpot dining. As hotpot is more inclusive than other styles of cooking, new food ingredients can be easily introduced to hotpot dining. Hotpot restaurants are more willing to stay appealing to customers by offering new food ingredients in their menus rather than stick to their own understanding of hotpot stereotype.

**Growth of Delivery Business**

Delivery food service is growing fast in the PRC in the past few years. The Group plans to strengthen our competitiveness in the delivery segment to fully utilize the business hours of rush hours in a day such as lunch and dinner time to improve our revenue density. The Group will closely cooperate with online ordering and delivery platforms to promote the delivery business.

## DIVIDEND

The Board resolved not to recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2019, the Group recorded cash and bank balances amounting to approximately RMB5.3 million (2018: approximately RMB51.6 million) and the net current liabilities value was approximately RMB182.5 million (2018: approximately RMB53.5 million).

The net liabilities value per share of the Company was approximately RMB1.49 cents as at 31 December 2019 (2018: approximately RMB0.82 cents). The net liabilities value per share was computed based on 5,517,313,735 and 4,476,238,151 weighted average number of ordinary shares as at 31 December 2019 and 2018 respectively.

The Group's gearing ratio as at 31 December 2019 was approximately 0.01 (2018: 0.29), being a ratio of total debts, including borrowings and convertible bonds, of approximately RMB2.9 million (2018: RMB95.3 million) to the total assets of approximately RMB305.3 million (2018: approximately RMB323.5 million).

## PLEDGE OF ASSETS

As at 31 December 2019, the Company had no charges on its assets (2018: Nil).

## CHANGE OF DIRECTORS

Mr. Su Guicai has resigned as an executive Director with effect from 1 March 2019.

Mr. Mai Guangfan has resigned as an independent non-executive Director with effect from 1 March 2019.

Mr. Tam Bing Chung Benson has been appointed as an independent non-executive Director with effect from 1 March 2019.

## CAPITAL STRUCTURE

On 15 July 2019, the Company received a conversion notice to convert the 5-year zero coupon convertible bonds issued by the Company (the "Convertible Bonds") in the principal amount of HK$3,806,427.1875 into ordinary shares of the Company (the "Shares"). Based on the conversion price of HK$0.1025 per Share, a total of 37,135,875 Shares were allotted and issued by the Company on 17 July 2019.

On 12 September 2019, the Company received another conversion notice to convert the Convertible Bonds in the principal amount of HK$121,248,947.605 into Shares. Based on the conversion price of HK$0.1025 per Share, a total of 1,182,916,562 Shares were allotted and issued by the Company on 16 September 2019.

Save as disclosed above, the Company had no changes in capital structure during the year ended 31 December 2019.

## SIGNIFICANT INVESTMENT AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There was no acquisition or disposal of subsidiary and associated company or significant investments of the Group, which would have been required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") for the year ended 31 December 2019.

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities.

## CAPITAL COMMITMENTS

As at 31 December 2019, save as disclosed elsewhere in this annual report, the Group had no significant capital commitments.

## FOREIGN CURRENCY RISK

Most of the Group's business transactions, assets and liabilities are denominated in Renminbi and settled in Renminbi, which are the functional currencies of respective group companies. The Group's exposure to currency risk is minimal. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

## EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31 December 2019 was 1,784 (2018: 3,057). Employees' remuneration is commensurate with their job nature, qualifications and experience. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors. The Group continues to offer competitive remuneration packages and bonus to eligible staff, based on the performance of the Group and the individual employee.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

There was no material breach of or non-compliance with applicable laws and regulations by the Group during 2019 that has a significant impact on the business and operations of the Group.

## CONNECTED TRANSACTIONS

The Company did not have any connected transactions which were subject to the reporting requirements under Chapter 14A of the Listing Rules for the year ended 31 December 2019.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the financial year.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established with written terms of reference which are in line with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules and the Audit Committee comprises three independent non-executive Directors.

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the year ended 31 December 2019.

## CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating the elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders of the Company as a whole. Thus, the Company adopted the principles and the code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

During the year under review, the Company complied with the CG Code except for the deviation from the code provisions which are explained below.

### Code Provision A.2.1

The role of the chairman of the Board is performed by Mr. Hung Shui Chak ("Mr. Hung") who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Hung provides the Company with strong and consistent leadership, facilitates effective and efficient planning, implementation of business decisions and strategies, and ensures the generation of benefits to the shareholders of the Company.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company is performed by the executive Directors and the senior management of the Group whom have extensive experience in the business of the Group. Their respective areas of profession spearhead the Group's overall development and business strategies.

### Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ha Kee Choy Eugene, an independent non-executive Director, is not appointed for a specific term as required under code provision A.4.1 but is subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company has good corporate governance practices.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by directors. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. The Company has made specific enquiries of all Directors held offices during the year under review. All of them have confirmed that they complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2019.

## REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the COVID-19 coronavirus outbreak. The unaudited annual results contained in this announcement have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Listing Rules. An announcement relating to the audited results will be made when the auditing process has been completed by the Company's auditors in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (http://www.cre8ir.com/longhui/). The annual report will be despatched to the shareholders of the Company and will be available on websites of the Stock Exchange and the Company in due course.

By order of the Board
**Longhui International Holdings Limited**
**Hung Shui Chak**
*Chairman and executive Director*

Hong Kong, 27 March 2020

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Hung Shui Chak, Mr. So Kam Chuen, Mr. Yuan Mingjie and Mr. Chen Jun; and three independent non-executive Directors, namely Mr. Ha Kee Choy Eugene, Mr. Chan Chun Yiu Thomas and Mr. Tam Bing Chung, Benson.*