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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS

The board (the "Board") of directors (the "Director(s)") of Longhui International Holdings Limited (the "Company") hereby announces the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020, together with comparative figures from the previous corresponding year, summarised as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	3	**184,378**	418,565
Foods and beverage and other materials consumables used		**(84,501)**	(167,726)
Employee benefit and related expenses		**(66,205)**	(149,376)
Property rentals and related expenses		**(19,489)**	(31,160)
Utilities expenses		**(7,325)**	(19,968)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset		**(67,375)**	(126,845)
Other expenses		**(19,791)**	(39,969)
Other gains, net	4	**17,905**	3,769
Loss from operating activities	5	**(62,403)**	(112,710)
Finance expenses, net	6	**(6,595)**	(17,771)
Loss before tax		**(68,998)**	(130,481)
Income tax (expenses)/credit	7	**(716)**	2,234
Loss for the year		**(69,714)**	(128,247)
Loss attributable to:			
Owners of the Company		**(69,058)**	(127,513)
Non-controlling interest		**(656)**	(734)
		(69,714)	(128,247)
Loss for the year		**(69,714)**	(128,247)
Other comprehensive income/(loss), net of income tax			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**2,611**	(912)
Total comprehensive loss for the year		**(67,103)**	(129,159)

	Notes	**2020**	2019
		RMB'000	*RMB'000*
Total comprehensive loss attributable to:			
Owners of the Company		**(66,447)**	(128,425)
Non-controlling interest		**(656)**	(734)
		(67,103)	(129,159)
Loss per share	*8*		
			(restated)
— Basic (RMB cent)		**(20.9)**	(44.6)
			(restated)
— Diluted (RMB cent)		**(20.9)**	(44.6)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**22,879**	39,034
Right-of-use assets		**48,778**	123,444
Intangible asset		**4**	100
Prepayments and other receivables		**10,494**	22,719
Deferred tax assets		**25,389**	26,150
		107,544	211,447
Current assets			
Inventories		**14,086**	27,098
Trade receivables	*9*	**2,269**	5,907
Prepayments and other receivables		**34,395**	55,534
Cash and cash equivalents		**3,177**	5,338
		53,927	93,877
Total assets		**161,471**	305,324
Capital and reserves			
Share capital	*10*	**109**	109
Reserves		**(147,837)**	(81,390)
Equity attributable to owners of the Company		**(147,728)**	(81,281)
Non-controlling interest		**(1,346)**	(690)
Total equity		**(149,074)**	(81,971)

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		**49,186**	107,837
Convertible bonds		**3,001**	2,942
Deferred tax liabilities		**116**	166
		52,303	110,945
Current liabilities			
Trade payables	*11*	**44,366**	52,865
Other payables and accruals	*12*	**145,235**	134,609
Contract liabilities		**47,822**	42,824
Income tax payables		**843**	892
Borrowings		**3,000**	—
Lease liabilities		**16,976**	45,160
		258,242	276,350
Total liabilities		**310,545**	387,295
Total equity and liabilities		**161,471**	305,324
Net current liabilities		**(204,315)**	(182,473)

NOTES TO THE 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. According to the register of substantial shareholders maintained by the Company as at 31 December 2020, Shui Chak Group Limited ("Shui Chak Group") is the substantial corporate shareholder 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 in Hong Kong is Suite 301, 3/F., Hale Weal Industrial Building, 22-28 Tai Chung Road, Tsuen Wan, New Territories.

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

The consolidated statements 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"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated. RMB is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars ("HK$"). The Directors consider the choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

The consolidated financial statements as at and for the year ended 31 December 2020 comprise the Company and its subsidiaries (collectively referred to as the "Group").

Going concern basis

The Group reported a consolidated net loss of approximately RMB69,714,000 for the current year and net current liabilities of approximately RMB204,315,000 as at 31 December 2020.

The cash and cash equivalent balance amounted to approximately RMB3,177,000 at 31 December 2020. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

During the year, the directors of the Company ("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 from the date of approval of the consolidated financial statements 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 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;

(v) the Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer and placing of new shares.

Notwithstanding the above, given the outbreak of COVID-19 coronavirus 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 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 noncurrent assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standard Board ("the IASB") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

In addition, the Group has early applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions".

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

Impacts on early application of Amendment to IFRS 16 Covid-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

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

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

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has benefited from 10 days to 2 months waiver of lease payments on restaurants in the PRC. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of approximately RMB$4,325,000, which has been recognised as variable lease payments in profit or loss for the current year.

New and amendments to IFRSs that have been issued but are not yet effective

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

IFRS 3 (Amendments)	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2[4]
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
IFRS 17	Insurance Contracts and the related Amendment[1]
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current[1]
IAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use[2]
IAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract[2]
IFRS Standards (Amendments)	Annual Improvements to IFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021.

The Directors anticipate that the application of all the new and amendments to IFRSs will have no material impact on the 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 year. The revenue from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated statement of profit or loss and other comprehensive income.

(A) Segment revenue

	Year ended 31 December 2020												
	Faigo				Xiao Faigo Hotpot							Unallocated	Total
	Shanghai	Beijing	Others	Subtotal	Shanghai	Beijing	Wuxi	Nanjing	Hangzhou	Others	Subtotal		
Revenue	**72,769**	**2,692**	**2,346**	**77,807**	**77,133**	**3,684**	**9,688**	—	—	**16,066**	**106,571**	—	**184,378**
Depreciation, amortization and impairment of property, plant and equipment and intangible asset	**15,328**	**2,912**	**2,750**	**20,990**	**39,060**	**1,223**	**1,456**	—	—	**4,620**	**46,359**	**26**	**67,375**
Operating profit/(losses)	**5,866**	**(146)**	**(2,009)**	**3,711**	**(47,012)**	**2,280**	**(6,898)**	—	—	**(6,034)**	**(57,664)**	**(8,450)**	**(62,403)**
Profit/(loss) before income tax	**3,970**	**(748)**	**(2,176)**	**1,046**	**(50,002)**	**2,140**	**(6,966)**	—	—	**(6,509)**	**(61,337)**	**(8,707)**	**(68,998)**

	Year ended 31 December 2019												
	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, amortization and impairment of property, plant and equipment 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/(loss) 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)

(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	
	2020	2019	**2020**	2019
The PRC	**184,378**	418,565	**107,544**	211,447

(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 (2019: nil) had transactions which exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2020.

(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:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major product lines		
— Hotpot business	**184,378**	418,565

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

4. OTHER GAINS — NET

	2020	2019
	RMB'000	*RMB'000*
Government grants (note (a))	**570**	1,307
Loss on disposal of property, plant and equipment	**(706)**	(5,587)
Gains from default fine due to rental agreement early termination (note (b))	**—**	500
Gain on lease modification	**12,186**	2,263
Promotion service income	**—**	1,509
(Allowance for)/reversal of expected credit loss on trade and other receivables	**(1,027)**	1,531
Covid-19 related rental concession	**4,325**	—
Others (note (c))	**2,557**	2,246
	17,905	3,769

notes:

(a) During the year ended 31 December 2020, the Company recognised government grant of approximately RMB336,000 (equivalents to HK$378,000) (2019: Nil) in respect of COVID-19 Employment Support Scheme provided by the Hong Kong government. Other than that, the amounts RMB234,000 (2019: RMB1,307,000) represent the subsidies received from PRC governments for the Group's local business developments. There were no unfulfilled conditions in the years in which they were recognised.

(b) The gains represent the default fine received from landlords due to the early termination of certain lease agreement.

(c) Others mainly included the tips income.

5. LOSS FROM OPERATING ACTIVITIES

	2020	2019
	RMB'000	*RMB'000*
Loss from operating activities has been arrived at after charging/ (crediting):		
Directors' emoluments		
— Fees	**1,385**	2,829
— Retirement benefits scheme contributions	**—**	—
Auditors' remuneration	**1,600**	1,600
Depreciation of property, plant and equipment	**13,628**	21,066
Amortisation of intangible asset	**96**	209
Depreciation of right-of-use assets	**42,598**	82,791
Impairment of right-of-use assets	**7,344**	8,009
Impairment of property, plant and equipment	**3,709**	14,770
Short-term lease payment	**14**	1,515
Low-value asset lease payment	**933**	1,525
Written off on properties, plant and equipment	**2,704**	12,112
Allowance for/(reversal of) expected credit loss on trade and other receivables	**1,027**	(1,531)
Loss on disposal of property, plant and equipment[1]	**706**	5,587
Cleaning fee[2]	**1,444**	8,038
Transportation expenses[2]	**1,634**	4,905
Promotion and marketing expenses[2]	**3,573**	4,087
Travelling expenses[2]	**308**	4,118
Repair and maintenance fee[2]	**4,533**	4,228
Professional service expenses[2]	**4,140**	4,949
Foreign exchange (gain)/loss	**(15)**	54

1 These items were grouped under other gains, net.
2 These items were grouped under other operating expenses.

6. FINANCE EXPENSES, NET

	2020	2019
	RMB'000	*RMB'000*
Finance income:		
— Interest income on cash and cash equivalents	**14**	163
Finance expenses:		
— Imputed interest on convertible bonds	**(257)**	(4,838)
— Interest expense on borrowings	**(104)**	(877)
— Interest expense on lease liabilities	**(6,248)**	(12,219)
	(6,609)	(17,934)
Finance expenses, net	**(6,595)**	(17,771)

7. INCOME TAX EXPENSES/(CREDIT)

The income tax expenses/(credit) of the Group for the years are analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
PRC Enterprise Income tax		
— Current tax	**—**	70
— Over provision in prior years	**(3)**	(1,705)
Deferred tax	**719**	(599)
Income tax expenses/(credit)	**716**	(2,234)

8. 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:

	2020	2019
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**69,058**	127,513

	Year ended 31 December	
	2020	2019
		(Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**330,563,109**	286,152,204

The weighted average number of ordinary shares of 330,563,109 (2019: Restated as 286,152,204) in issue during the year, as adjusted to reflect the effect of the share consolidation and the rights issue. Comparative figures have also been adjusted on the assumption that the share consolidation and the rights issue (as disclosed in Note 15) had been effective in the prior year.

For the year ended 31 December 2020 and 2019, 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.

9. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**5,145**	7,041
Less: Allowance for expected credit loss	**(2,876)**	(1,134)
	2,269	5,907

As at 31 December 2020 and 2019, the fair values of the trade receivables of the Group approximated their carrying amounts.

The aging analysis of trade receivables, based on the invoice date and net of allowance for expected credit loss, were as follows:

	2020	2019
	RMB'000	*RMB'000*
0–30 days	**1,726**	4,619
31–90 days	**134**	114
91–180 days	**319**	153
181–360 days	**90**	1,021
	2,269	5,907

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.

10. SHARE CAPITAL

Share capital of the Company

	Number of shares	Amount *HK$'000*	Amount *RMB'000*
Authorised			
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 (HK$0.00002 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 2019	5,153,550,000	103	87
Conversion of convertible bonds (note a)	1,220,052,437	25	22
As at 31 December 2019, 1 January 2020 and 31 December 2020	6,373,602,437	128	109

note:

(a) 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 (the "Shares").

11. TRADE PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**44,366**	52,865

The credit period on trade payables is generally 30–180 days

As at 31 December 2020 and 2019, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	2020	2019
	RMB'000	*RMB'000*
0–30 days	**7,145**	13,086
31–90 days	**8,144**	16,478
91–180 days	**15,221**	11,253
181–360 days	**7,387**	5,353
Over 1 year	**6,469**	6,695
	44,366	52,865

As at 31 December 2020 and 2019, the carrying amount of the Group's trade payables were denominated in RMB.

12. OTHER PAYABLES AND ACCRUALS

	2020	2019
	RMB'000	*RMB'000*
Staff costs and welfare accruals	**57,836**	61,145
Leasehold improvements payable	**11,898**	15,278
Payable to payroll related services	**3,606**	9,028
Rental payable	**5,320**	9,948
Professional service expenses	**10,153**	9,481
Utility payable	**501**	1,324
Business tax and other tax liabilities	**99**	8
Amounts due to related parties	**1,149**	1,029
Amounts due to former shareholders	**23,859**	24,968
Others	**2,614**	2,400
Loans from independent third parties	**28,200**	—
	145,235	134,609

13. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred are as follows:

	2020	2019
	RMB'000	*RMB'000*
Property, plant and equipment	**4,346**	6,998

14. CONTINGENT LIABILITIES

The Company acquired the entire equity interest in the Longhui International Catering Management Limited (the "Accounting Acquirer") on 4 July 2018 (the "Acquisition Date") was accounted for in the consolidated financial statements as reverse acquisition of the Company by the Accounting Acquirer (the "Reverse Acquisition"). The Group recognised deemed listing expenses of approximately RMB399,670,000 upon the application of the Reverse Acquisition on the Acquisition Date ("Deemed Listing Expenses").

On the Acquisition Date, the Group applied the Reverse Acquisition method of accounting and recognised the identifiable assets and liabilities of the Company as at that date, including the recorded accrued expenses and other payables of approximately RMB37,578,000 as disclosed in Note 32 to the consolidated financial statements in the annual report of the Company for the year ended 31 December 2019.

These recorded accrued expenses and other payables do not include any of the unknown liabilities of the Company brought forward from 1 January 2018, which included the amount due to a deconsolidated subsidiary of approximately RMB882,000 (equivalent to approximately HK$1,028,000) and unknown other payables of approximately RMB15,182,000 (equivalent to approximately HK$17,694,000) (collectively, the "Unknown Liabilities").

The Company had used its best effort to identify the nature of the Unknown Liabilities including publishing a public notice which invited any potential creditors to inform the Company of any debts or claims.

With the legal advice provided to the Company, according to Section 4(1)(a) of Cap. 347 provides that actions founded on simple contract shall not be brought after the expiration of 6 years from the date on which the course of action accrued whereas s.4(3) states that an action upon a specialty shall not be brought after the expiration of 12 years from the date on which the cause of action accrued.

The directors of the Company considered that the origin of the Unknown Liabilities is unlikely to be created under a deed and among other reasons, given actions founded on simple contract shall not be brought after 6 years from the date on which the cause of actions accrued pursuant to the Limitation Ordinance (Laws of Hong Kong Chapter 347), any potential creditors would be statutorily barred from taking action against another person 6 years after the date when the liabilities were due, unless such liabilities was created under deed, in which case, the limitation period shall be 12 years from the date of the liabilities were due. As the Unknown Liabilities were incurred during the year ended 31 December 2012 and 2013, the payment obligation is expired as at 31 December 2019.

Besides, the Company had entered into a debt assignment agreement with Global Courage Limited ("Global Courage"), pursuant to which Global Courage agrees to undertake all outstanding Unknown Liabilities.

Subject to the above matters, the possibility of outflow of economic resources in the settlement of Unknown Liabilities by the Group is not probable.

15. EVENTS AFTER THE REPORTING PERIOD

Share Consolidation and Adjustments to the Convertible Bonds

The Company proposed to implement the share consolidation (the "Share Consolidation") on the basis that every twenty (20) then issued and unissued Shares be consolidated into one (1) consolidated Share. The Share Consolidation has become effective from 14 January 2021. The board lot size for trading in the consolidated Shares remains as 20,000 consolidated Shares.

There were outstanding convertible bonds (the "Convertible Bonds") in the principal amount of HK$4,414,937.7075 with the initial conversion price of HK$0.1025 per then Share. Pursuant to the terms of the Convertible Bonds and upon the Share Consolidation becoming effective, adjustment is required to be made to the conversion price of the outstanding Convertible Bonds. The conversion price has been adjusted from HK$0.1025 per then Share to HK$2.05 per consolidated Share, and based on the conversion price of HK$2.05 per consolidated Share, the number of Shares which fall to be issued upon full conversion of the outstanding Convertible Bonds will be adjusted from a maximum of 43,072,563 then Shares to a maximum of 2,153,628 consolidated Shares. The adjustment took effect on 14 January 2021.

Details of the Share Consolidation and adjustments to the Convertible Bonds are set out in the Company's announcements dated 27 October 2020, 17 November 2020, 8 December 2020 and 12 January 2021; and the circular of the Company dated 24 December 2020.

Rights Issue and Further Adjustments to the Convertible Bonds

The Company proposed to raise a gross proceeds of up to approximately HK$45.25 million by way of a rights issue (the "Rights Issue") of 318,680,121 rights shares (the "Rights Shares") at the subscription price of HK$0.142 per Rights Share on the basis of one (1) Rights Share for every one (1) consolidated Share held by the qualifying shareholders of the Company on the record date.

On 27 October 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement") (as amended by the supplemental underwriting agreement dated 18 December 2020 (the "Supplemental Underwriting Agreement")) with the underwriter, pursuant to which the underwriter agreed to procure, on a best effort basis, the subscription (but will not itself subscribe) for the underwritten Shares not being taken up (other than the Rights Shares to be provisionally allotted to Shui Chak Group Limited subject to the irrevocable undertaking (the "Irrevocable Undertaking") provided by Shui Chak Group Limited to subscribe for 161,583,312 Rights Shares, i.e. its entitlement under the Rights Issue in full).

The maximum net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$43.25 million. The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately HK$25.88 million for the repayment of the existing indebtedness of the Group from independent third parties; (ii) approximately HK$3.75 million for the repayment of bank loan; and (iii) approximately HK$13.62 million for the general working capital of the Group, including the rental payment of the Group's restaurants located in PRC, staff costs and settlement of the Group's day-to-day operating expenses.

A total of 26 valid acceptances and applications had been received for a total of 213,550,810 Rights Shares. In aggregate, the valid applications and acceptances represented approximately 67.01% of the total number of 318,680,121 Rights Shares available for subscription under the Rights Issue. Shui Chak Group Limited subscribed for 161,583,312 Rights Shares in accordance with the Irrevocable Undertaking. As the Rights Issue was under-subscribed, the underwriter had procured the subscription of 105,129,311 unsubscribed Rights Shares, representing approximately 32.99% of the total number of Rights Shares available for subscription under the Rights Issue.

Pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds and the number of Shares falling to be allotted and issued upon conversion of the Convertible Bonds were further adjusted as a result of the Rights Issue with effect from 22 February 2021, being the date on which the fully-paid Rights Shares were allotted and issued. The conversion price has been further adjusted from HK$2.05 per Share to HK$1.75 per Share, and based on the conversion price of HK$1.75 per Share, the number of Shares which fall to be issued upon full conversion of the outstanding Convertible Bonds will be adjusted from a maximum of 2,153,628 Shares to a maximum of 2,522,821 Shares.

Details of the Rights Issue and further adjustments to the Convertible Bonds are set out in the announcements of the Company dated 27 October 2020, 5 November 2020, 17 November 2020, 8 December 2020, 12 January 2021 and 19 February 2021; the circular of the Company dated 24 December 2020; and the prospectus of the Company dated 27 January 2021.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's consolidated financial statement for the year ended 31 December 2020:

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB69,714,000 during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB204,315,000. As stated in Note 2.1 to the consolidated financial statements, these events or conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

In 2020, the Group continued to rank among the Top 20 Hotpot Restaurants in China 2020 (《2020中國火鍋Top 20》) in the Annual Report on Catering Industry of China in 2020 (《2020中國餐飲業年度報告》) co-published by China Hotel association and Xinhuanet.

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	
	2020	2019
	RMB'000	*RMB'000*
Revenue (in RMB)		
Shanghai	**77,133**	204,473
Beijing	**3,684**	30,175
Wuxi	**9,688**	25,725
Nanjing	—	5,610
Hangzhou	—	4,316
Other cities	**16,066**	57,890
Nationwide	**106,571**	328,189
Number of restaurants		
Shanghai	**18**	44
Beijing	—	7
Wuxi	**2**	4
Other cities	**4**	16
Nationwide	**24**	71
Average customer per day per restaurant *(note 1)*		
Shanghai	**91.5**	107.6
Beijing	**58.0**	87.8
Wuxi	**113.3**	145.4
Nanjing	—	72.4
Hangzhou	—	67.1
Other cities	**74.1**	54.4
Nationwide	**88.6**	94.6
Seat turnover rate per day per restaurant *(note 2)*		
Shanghai	**0.9**	0.5
Beijing	**0.5**	0.8
Wuxi	**1.1**	1.3
Nanjing	—	0.7
Hangzhou	—	0.6
Other cities	**0.8**	0.6

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Nationwide	**0.9**	0.9
Average daily restaurant sales (in RMB) *(note 3)*		
Shanghai	**9,330.3**	11,316.9
Beijing	**7,658.8**	11,246.7
Wuxi	**12,681.0**	17,620.1
Nanjing	—	8,752.1
Hangzhou	—	7,776.2
Other cities	**8,320.0**	8,918.4
Nationwide	**9,313.2**	10,976.9
Average spending per customer (in RMB) *(note 4)*		
Shanghai	**101.9**	105.1
Beijing	**132.0**	128.1
Wuxi	**111.9**	121.1
Nanjing	—	120.9
Hangzhou	—	115.8
Other cities	**112.3**	164.0
Nationwide	**105.2**	116.0

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	
	2020	2019
	RMB'000	*RMB'000*
Revenue (in RMB)		
Shanghai	**72,769**	73,923
Beijing	**2,692**	9,463
Other cities	**2,346**	6,990
Nationwide	**77,807**	90,376
Number of restaurants		
Shanghai	**4**	4
Beijing	**—**	1
Other cities	**1**	1
Nationwide	**5**	6
Average customer per day per restaurant *(note 1)*		
Shanghai	**57.0**	50.6
Beijing	**21.0**	34.9
Other cities	**11.4**	30.2
Nationwide	**33.2**	40.0
Seat turnover rate per day per restaurant *(note 2)*		
Shanghai	**0.5**	0.4
Beijing	**0.5**	0.9
Other cities	**0.2**	0.3
Nationwide	**0.3**	0.4
Average daily restaurant sales (in RMB) *(note 3)*		
Shanghai	**52,884.4**	50,632.5
Beijing	**14,874.9**	25,925.9
Other cities	**7,542.0**	12,571.9
Nationwide	**30,087.7**	34,948.3

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Average spending per customer (in RMB) *(note 4)*		
Shanghai	**927.4**	999.7
Beijing	**708.9**	742.2
Other cities	**658.9**	416.0
Nationwide	**906.6**	873.2

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/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 51 underperforming restaurants and opened 3 restaurants in popular shopping malls during 2020. As at 31 December 2020, the Company owned and operated a total of 29 restaurants (2019: 77 restaurants). As at 31 December 2020, 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 2021 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

The outbreak of COVID-19 coronavirus since early 2020 has materially and adversely impacted the revenue from restaurant's operations. The Group's revenue decreased by approximately 55.9% from approximately RMB418.6 million in 2019 to approximately RMB184.4 million in 2020.

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 49.6% from approximately RMB167.7 million in 2019 to approximately RMB84.5 million in 2020. As a percentage of the Group's revenue, the Group's foods and beverage and other materials consumables costs remain stable from approximately 40.1% in 2019 to approximately 45.8% in 2020, mainly attributable to the fact that the Group strengthened the cost control of food ingredient procurement.

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 55.7% from approximately RMB149.4 million in 2019 to approximately RMB66.2 million in 2020, mainly attributable to the closure of several restaurants. A portion of outsourcing staff were laid-off therefore labour outsourcing expenses decreased by approximately 61.0% from approximately RMB122.3 million in 2019 to approximately RMB 47.7 million in 2020.

The Group entered into an agreement with a third party agent who provides catering outsourcing services. Pursuant to the 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.

Property rentals and related expenses

Following the closure of several restaurants, the Group's property rentals and related expenses decreased by approximately 37.5% from approximately RMB31.2 million in 2019 to approximately RMB19.5 million in 2020.

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

Following the closure of several restaurants, the Group's depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset decreased by approximately 46.8% from approximately RMB126.8 million in 2019 to approximately RMB67.4 million in 2020.

The Group's impairment of property, plant and equipment and impairment of right-of-use assets amounted to approximately RMB3.7 million (2019: approximately 14.8 million) and approximately 7.3 million (2019: approximately 8.0 million) respectively in 2020.

Other expenses

The Group's other expenses, which mainly consist of professional service expenses; repair and maintenance fee; and promotion and marketing expenses, decreased by approximately 50.5% from approximately RMB40.0 million in 2019 to approximately RMB19.8 million in 2020, which was mainly attributable to the decrease in cleaning fee of approximately RMB6.6 million, transportation expenses of approximately RMB3.3 million and travelling expenses of approximately RMB3.8 million.

Other gains (net)

The Group's other gains increased by approximately 371.1% from approximately RMB3.8 million in 2019 to approximately RMB17.9 million in 2020, which was mainly attributable to the gain on lease modification of approximately RMB12.2 million (2019: approximately RMB2.3 million) and gain on rental concession of approximately RMB4.3 million in 2020 (2019: nil) both under the application of Amendment to IFRS 16 "Covid-19-Related Rent Concessions".

Finance expenses, 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 expenses decreased by approximately 62.9% from approximately RMB17.8 million in 2019 to approximately RMB6.6 million in 2020, mainly attributable to decrease in finance expenses charged on lease liabilities owing to the closure of restaurants.

Loss for the year

Loss for the year attributable to owners of the Company for 2020 was approximately RMB69.1 million (2019: approximately RMB127.5 million). Basic loss per share for 2020 was approximately RMB20.9 cents (2019: approximately RMB44.6 cents (restated)). The net loss was mainly attributable to the outbreak of COVID-19 coronavirus since early 2020, 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 2020 (2019: nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2020, the Group recorded cash and cash equivalents amounting to approximately RMB3.2 million (2019: approximately RMB5.3 million) and the net current liabilities value was approximately RMB204.3 million (2019: approximately RMB182.5 million).

The net liabilities value per share of the Company was approximately RMB0.45 as at 31 December 2020 (2019: approximately RMB0.29 (restated)). The net liabilities value per share was computed based on 330,563,109 and 286,152,204 (restated) weighted average number of ordinary shares as at 31 December 2020 and 2019 respectively.

The Group's gearing ratio as at 31 December 2020 was approximately 0.04 (2019: 0.01), being a ratio of total debts, including borrowings and convertible bonds, of approximately RMB6.0 million (2019: approximately RMB2.9 million) to the total assets of approximately RMB161.5 million (2019: approximately RMB305.3 million).

USE OF PROCEEDS FROM SHARE PLACING

On 2 May 2018, the Company and the placing agent entered into a placing agreement (the "Placing Agreement") on a fully underwritten basis, to not less than six placees who and whose ultimate beneficial owners are independent third parties (the "Share Placing").

The completion of Share Placing took place on 4 July 2018. An aggregate of 757,875,000 ordinary shares of HK$0.00002 each with aggregate nominal value of HK$15,157.50 (the "Placing Shares") were placed at the placing price of HK$0.1025 per Placing Share pursuant to the terms and conditions of the Placing Agreement. The Placing Shares were issued under a specific mandate obtained at the extraordinary general meeting held on 28 May 2018. The net proceeds from the Share Placing (after deducting the expenses) were approximately HK$75.73 million. As previously disclosed in the circular of the Company dated 9 May 2018, the Company intended to apply the net proceeds of approximately HK$75.73 million from the Share Placing to expand and develop the business of the Group.

As at 31 December 2020, the Group utilized the net proceeds from the Share Placing as to approximately HK$75.73 million for the expansion and development of the business of the Group.

PLEDGE OF ASSETS

As at 31 December 2020, the Company had no charges on its assets (2019: nil).

CHANGE OF DIRECTORS

Mr. Chen Jun has resigned as an executive Director with effect from 8 May 2020.

Mr. Chan Chun Yiu Thomas has resigned as an independent non-executive Director with effect from 30 June 2020.

Mr. Cheung Ting Pong has been appointed as an independent non-executive Director with effect from 30 June 2020.

Mr. Ha Kee Choy Eugene has resigned as an independent non-executive Director with effect from 31 August 2020.

Mr. Johnson Wan has been appointed as an independent non-executive Director with effect from 31 August 2020.

CAPITAL STRUCTURE

The Company had no changes in capital structure during the year ended 31 December 2020.

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 2020.

EVENTS AFTER THE REPORTING PERIOD

Share Consolidation and Adjustments to the Convertible Bonds

The Company proposed to implement the share consolidation (the "Share Consolidation") on the basis that every twenty (20) then issued and unissued Shares be consolidated into one (1) consolidated Share. The Share Consolidation has become effective from 14 January 2021. The board lot size for trading in the consolidated Shares remains as 20,000 consolidated Shares.

There were outstanding convertible bonds (the "Convertible Bonds") in the principal amount of HK$4,414,937.7075 with the initial conversion price of HK$0.1025 per then Share. Pursuant to the terms of the Convertible Bonds and upon the Share Consolidation becoming effective, adjustment is required to be made to the conversion price of the outstanding Convertible Bonds. The conversion price has been adjusted from HK$0.1025 per then Share to HK$2.05 per consolidated Share, and based on the conversion price of HK$2.05 per consolidated Share, the number of Shares which fall to be issued upon full conversion of the outstanding Convertible Bonds will be adjusted from a maximum of 43,072,563 then Shares to a maximum of 2,153,628 consolidated Shares. The adjustment took effect on 14 January 2021.

Details of the Share Consolidation and adjustments to the Convertible Bonds are set out in the Company's announcements dated 27 October 2020, 17 November 2020, 8 December 2020 and 12 January 2021; and the circular of the Company dated 24 December 2020.

Rights Issue and Further Adjustments to the Convertible Bonds

The Company proposed to raise a gross proceeds of up to approximately HK$45.25 million by way of a rights issue (the "Rights Issue") of 318,680,121 rights shares (the "Rights Shares") at the subscription price of HK$0.142 per Rights Share on the basis of one (1) Rights Share for every one (1) consolidated Share held by the qualifying shareholders of the Company on the record date.

On 27 October 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement") (as amended by the supplemental underwriting agreement dated 18 December 2020 (the "Supplemental Underwriting Agreement")) with the underwriter, pursuant to which the underwriter agreed to procure, on a best effort basis, the subscription (but will not itself subscribe) for the underwritten Shares not being taken up (other than the Rights Shares to be provisionally allotted to Shui Chak Group Limited subject to the irrevocable undertaking (the "Irrevocable Undertaking") provided by Shui Chak Group Limited to subscribe for 161,583,312 Rights Shares, i.e. its entitlement under the Rights Issue in full).

The maximum net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$43.25 million. The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately HK$25.88 million for the repayment of the existing indebtedness of the Group from independent third parties; (ii) approximately HK$3.75 million for the repayment of bank loan; and (iii) approximately HK$13.62 million for the general working capital of the Group, including the rental payment of the Group's restaurants located in PRC, staff costs and settlement of the Group's day-to-day operating expenses.

A total of 26 valid acceptances and applications had been received for a total of 213,550,810 Rights Shares. In aggregate, the valid applications and acceptances represented approximately 67.01% of the total number of 318,680,121 Rights Shares available for subscription under the Rights Issue. Shui Chak Group Limited subscribed for 161,583,312 Rights Shares in accordance with the Irrevocable Undertaking. As the Rights Issue was under-subscribed, the underwriter had procured the subscription of 105,129,311 unsubscribed Rights Shares, representing approximately 32.99% of the total number of Rights Shares available for subscription under the Rights Issue.

Pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds and the number of Shares falling to be allotted and issued upon conversion of the Convertible Bonds were further adjusted as a result of the Rights Issue with effect from 22 February 2021, being the date on which the fully-paid Rights Shares were allotted and issued. The conversion price has been further adjusted from HK$2.05 per Share to HK$1.75 per Share, and based on the conversion price of HK$1.75 per Share, the number of Shares which fall to be issued upon full conversion of the outstanding Convertible Bonds will be adjusted from a maximum of 2,153,628 Shares to a maximum of 2,522,821 Shares.

Details of the Rights Issue and further adjustments to the Convertible Bonds are set out in the announcements of the Company dated 27 October 2020, 5 November 2020, 17 November 2020, 8 December 2020, 12 January 2021 and 19 February 2021; the circular of the Company dated 24 December 2020; and the prospectus of the Company dated 27 January 2021.

CONTINGENT LIABILITIES

As at 31 December 2020, save as disclosed elsewhere in this announcement, the Group had no other significant contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2020, save as disclosed elsewhere in this announcement, the Group had no other 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 is the functional currency 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 2020 was 754 (2019: 1,784). 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 2020 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 2020.

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 consolidated financial statements for the year ended 31 December 2020.

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year as set out in this announcement have been agreed by the Group's auditor, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Group's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on this announcement.

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 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, was not appointed for a specific term as required under code provision A.4.1 but was 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 considered that sufficient measures had been taken to ensure that the Company had good corporate governance practices. Mr. Ha Kee Choy Eugene resigned as an independent non-executive Director with effect from 31 August 2020.

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 2020.

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, 24 March 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Hung Shui Chak, Mr. So Kam Chuen and Mr. Yuan Mingjie; and three independent non-executive Directors, namely Mr. Tam Bing Chung Benson, Mr. Cheung Ting Pong and Mr. Johnson Wan.