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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

RESULTS

The board (the "Board") of directors (the "Director(s)") of Longhui International Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
			(Restated)
Revenue	2	**237,904**	319,707
Foods and beverage and other materials consumables used		**(92,100)**	(124,296)
Employee benefit and related expenses	3	**(69,229)**	(86,035)
Property rentals and related expenses		**(17,736)**	(72,593)
Utilities expenses		**(8,590)**	(9,395)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangible asset		**(94,108)**	(37,737)
Other expenses		**(16,775)**	(28,349)
Other (losses)/gains, net		**(70)**	2,554
Loss from operating activities	4	**(60,704)**	(36,144)
Finance (expenses)/income, net		**(9,028)**	2,641
Loss before tax		**(69,732)**	(33,503)
Income tax credit	5	**14,242**	5,795
Loss for the period		**(55,490)**	(27,708)
Loss attributable to:			
Owners of the Company		**(55,205)**	(27,426)
Non-controlling interest		**(285)**	(282)
		(55,490)	(27,708)

	Note	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited) (Restated)
Loss for the period		**(55,490)**	(27,708)
Other comprehensive income, net of income tax			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**1,087**	—
Total comprehensive loss for the period		**(54,403)**	(27,708)
Attributable to:			
Owners of the Company		**(54,118)**	(27,426)
Non-controlling interest		**(285)**	(282)
		(54,403)	(27,708)
Basic and diluted loss per share	6	**(0.01)**	(0.01)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		**38,168**	69,270
Right-of-use assets	7	**122,997**	—
Intangible asset		**205**	309
Prepayments and other receivables	9	**22,139**	22,717
Deferred tax assets		**40,592**	26,349
		224,101	118,645
Current assets			
Inventories		**25,744**	31,387
Trade receivables	8	**7,534**	16,988
Prepayments and other receivables	9	**67,822**	78,513
Restricted cash		**26,390**	26,286
Cash and cash equivalents		**23,832**	51,631
		151,322	204,805
Total assets		**375,423**	323,450
Capital and reserves			
Share capital	10	**87**	87
Reserves		**(91,449)**	(36,764)
		(91,362)	(36,677)
Non-controlling interest		**(241)**	44
Total equity		**(91,603)**	(36,633)

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Convertible bonds		**76,328**	72,892
Lease liabilities	7	**115,208**	—
Other non-current liabilities		**5,319**	22,369
Deferred tax liabilities		**7,102**	6,535
		203,957	101,796
Current liabilities			
Trade payables	11	**52,291**	63,933
Other payables and accruals	11	**109,213**	131,784
Contract liabilities		**39,771**	39,343
Income tax payables		**791**	797
Borrowings		**22,430**	22,430
Lease liabilities	7	**38,573**	—
		263,069	258,287
Total liabilities		**467,026**	360,083
Total equity and liabilities		**375,423**	323,450
Net current liabilities		**(111,747)**	(53,482)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1 BASIS OF PREPARATION AND APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

On 4 July 2018 (the "Acquisition Date"), the Company completed (I) acquisition of Longhui International Catering Management Holdings Limited (the "Acquisition"), (II) disposal of Global Milk Products Pte Ltd. ("Global Milk", which was the Company's wholly-owned subsidiary incorporated in the Republic of Singapore) and its subsidiaries incorporated in the People's Republic of China ("PRC") (the "Disposal") (III) placing of consolidated shares and (IV) open offer. Details of these transactions are set out in the Company's announcements dated 4 July 2018.

The Acquisition constituted a very substantial acquisition and reverse takeover of the Company and involved a new listing application. Under the Acquisition, the Company acquired the entire issued share capital of Longhui International Catering Management Holdings Limited (the "Legal Acquiree" or the "Accounting Acquirer"), a company incorporated in the PRC with limited liability, in consideration of the issue of 3,789,375,000 ordinary shares of the Company at the issue price of HK$0.125 per share (the "Consideration Shares") and convertible bonds (the "Consideration Convertible Bonds") in the aggregate principal amount of approximately HK$129,470,000 to the vendors. The details of the Acquisition are set out in the Company's circular dated 9 May 2018.

For the purpose of preparation of the condensed consolidated financial statements, the Company is deemed to have been acquired by the Accounting Acquirer. These condensed consolidated financial statements have been prepared on the basis that the Accounting Acquirer has acquired the Company on the Acquisition Date (the "Reverse Acquisition"). Under the Reverse Acquisition basis of accounting, the condensed consolidated financial statements have been prepared as a continuation of the condensed consolidated financial statements of the Accounting Acquirer and its subsidiaries (the "Longhui Group") and accordingly:

(i) The assets and liabilities of the Longhui Group are recognised in the condensed consolidated financial statements of the Group and measured at their carrying amounts as presented in the condensed consolidated financial statements of the Longhui Group;

(ii) The identifiable assets and liabilities of the Company deemed to be acquired or assumed by the Accounting Acquirer are initially recognised on the Acquisition Date at their fair values as at that date. The fair value of the purchase consideration deemed to be transferred in exchange for the Company is determined based on the number of equity interests the Accounting Acquirer would have had to issue to give to the owners of the Company the same percentage equity interest in the combined Group that results from the Acquisition and measured at the fair value of the equity consideration deemed to be issued to the then shareholders of the Company (the "Deemed Consideration"). The Deemed Consideration is in excess of the fair values of the assets acquired and liabilities assumed by the Group and the difference is recognised as deemed listing expenses at the date of Acquisition (i.e. 4 July 2018);

(iii) The comparative information presented in these condensed consolidated financial statements is restated to be that of the Longhui Group.

In the current period, the Company has applied, for the first time, the following new standard, amendments and interpretations ("new IFRSs") issued by 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:

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

The above new IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

Except as described below, the application of the new IFRSs in the current period 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 condensed consolidated financial statements.

IFRS 16 *Leases*

During the six months ended 30 June 2019, the Group has applied IFRS 16 and the related consequential amendments to other IFRSs which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. In accordance with the transitional provisions in IFRS 16, the Group has elected to apply the new standard using the modified retrospective approach, the lease liability is measured based on the remaining lease payments discounting using the incremental borrowing rate as of the date of initial application.

Before the application of IFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in profit or loss over the lease period on a straight-line basis.

Upon application of IFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in IFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or the incremental borrowing rate of respective entities if the interest rate implicit to the lease cannot be determined.

At the inception of a contract that contain a lease component, as a lessee, the Group should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease component from lease components for certain classes of assets if the non-lease components are material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated statement of financial position immediately before the date of initial application. Depreciation is charged on a straight-line basis over the shorter of the lease term or the asset's useful life.

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%.

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	255,614
Less: Short-term leases recognised on a straight-line basis as expense	(3,157)
Less: low-value leases recognised on a straight-line basis as expense	(2,087)
Discounted using lessee's incremental borrowing rate of at the date of initial application	186,732
Weighted average incremental borrowing rate as at 1 January 2019	4.74%
Lease liabilities recognised at 1 January 2019 of which are:	186,732
— Current lease liabilities	31,800
— Non-current lease liabilities	154,932

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

Amounts recognised in the condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the six months ended 30 June 2019 are as follow:

	Right-of-use assets *RMB'000*	**Lease liabilities** *RMB'000*
As at 1 January 2019	162,242	186,732
Additions	15,320	—
Depreciation expense	(41,953)	—
Impairment	(12,612)	—
Interest expense	—	5,082
Payments	—	(38,033)
As at 30 June 2019	122,997	153,781

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.

	Right-of-use assets *RMB'000*	**Prepayment** *RMB'000*	**Other payables and accruals** *RMB'000*	**Lease liabilities** *RMB'000*	**Accumulated losses** *RMB'000*
Closing balance at 31 December 2018	—	78,513	(131,784)	—	(415,308)
Effect arising from initial application of IFRS 16:					
Remeasurement	162,242	(788)	25,278	(186,732)	—
Opening balance at 1 January 2019	162,242	77,725	(106,506)	(186,732)	(415,308)

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

The Group has not early adopted the following new and revised IFRSs, which have been issued but are not yet effective.

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 Venure[4]
IFRS 17	Insurance Contracts[3]
IAS 1 and IAS 8 (Amendments)	Definition of Material[2]

1 Effective for business combination and asset acquisition 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.

2. REVENUE AND SEGMENT INFORMATION

(A) Segment revenue

	Six months ended 30 June 2019 (Unaudited)												
	Faigo				**Xiao Faigo Hotpot**							**Unallocated**	**Total**
	Shanghai	**Beijing**	**Others**	**Subtotal**	**Shanghai**	**Beijing**	**Wuxi**	**Nanjing**	**Hangzhou**	**Others**	**Subtotal**		
Revenue	**38,678**	**5,022**	**4,925**	**48,625**	**123,495**	**16,216**	**13,591**	**3,546**	**2,964**	**29,467**	**189,279**	**—**	**237,904**
Depreciation, amortisation and impairment	**(6,598)**	**(2,142)**	**(2,132)**	**(10,872)**	**(55,323)**	**(9,801)**	**(1,233)**	**(3,025)**	**(1,273)**	**(11,971)**	**(82,626)**	**(610)**	**(94,108)**
Operating profit/(losses)	**1,515**	**(1,329)**	**(2,991)**	**(2,805)**	**(18,066)**	**(2,374)**	**(1,990)**	**(519)**	**(434)**	**(5,382)**	**(28,765)**	**(29,134)**	**(60,704)**
(Loss)/profit before tax	**1,515**	**(1,329)**	**(4,137)**	**(3,951)**	**(18,066)**	**(2,374)**	**(1,990)**	**(519)**	**(434)**	**(6,528)**	**(29,911)**	**(35,870)**	**(69,732)**

	Six months ended 30 June 2018 (Unaudited) (Restated)												
	Faigo				Xiao Faigo Hotpot							Unallocated	Total
	Shanghai	Beijing	Others	Subtotal	Shanghai	Beijing	Wuxi	Nanjing	Hangzhou	Others	Subtotal		
Revenue	51,746	6,934	4,054	62,734	174,785	22,765	13,800	6,444	3,997	35,182	256,973	—	319,707
Depreciation, amortisation and impairment	(2,064)	(108)	(596)	(2,768)	(16,910)	(4,366)	(1,361)	(989)	(990)	(10,246)	(34,862)	(107)	(37,737)
Operating profit/(losses)	6,593	(209)	(760)	5,624	(14,997)	(1,068)	(648)	(302)	(188)	(1,651)	(18,854)	(22,914)	(36,144)
(Loss)/profit before tax	6,593	(209)	(760)	5,624	(14,997)	(1,068)	(648)	(302)	(188)	(1,651)	(18,854)	(20,273)	(33,503)

(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	
	Six months ended 30 June		At 30 June	At 31 December
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Audited)
The PRC	**237,904**	319,707	**224,101**	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 (2018: nil) had transactions which exceeded 10% of the Group's aggregate revenue for the six months ended 30 June 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 follow:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited) (Restated)
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major product lines		
— Hotpot business	**237,904**	319,707

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

3. EMPLOYEE BENEFIT AND RELATED EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Wages and salaries	**8,322**	19,970
Defined contribution plan *(Note i)*	**5,022**	6,593
Other social security costs and housing benefits	**623**	1,949
Other employee benefits	**3,974**	6,250
Labour outsourcing expenses *(Note ii)*	**51,288**	51,273
	69,229	86,035

Notes:

(i) Employees of the Group established in the PRC are required to participate in a retirement benefit scheme administered and operated by the PRC government. The Group is required to contribute 14.0% to 22.5% of payroll costs as determined by respective local government authorities to the designated pension fund. The only obligation of the Group with respect to retirement benefit scheme is to make the specific contributions under the scheme.

(ii) In October, 2017, the Group entered into an agreement with Ningbo Tianxin Catering Management Co., Ltd. ("Ningbo Tianxin"), a third party agent who provides catering outsourcing services. Pursuant to this agreement, the Group outsourced a portion of its low level positions, such as waiter or waitress, kitchen assistants, etc to Ningbo Tianxin. The Group pays annual service fee at 15.0% of revenue of each store that uses such kind of outsourcing services. In March 2019, the Group terminated with Ningbo Tianxin, and entered another agreement with Ningbo Aibaosui Information Technology Co., Ltd instead of the same services for consideration of better services.

4. LOSS FROM OPERATING ACTIVITIES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Loss from operating activities has been arrived at after charging:		
Depreciation of property, plant and equipment	**18,850**	27,251
Depreciation of right-of-use assets	**41,953**	—
Impairment of right-of-use assets	**12,612**	—
Impairment of property, plant and equipment	**13,342**	8,955

5. INCOME TAX CREDIT

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Current income tax:		
PRC Enterprise Income tax	**—**	(1,977)
Deferred tax	**14,242**	7,772
Income tax credit	**14,242**	5,795

6. 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 figures are calculated as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of loss per share	**(55,205)**	(27,426)

Number of shares:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
		(Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**5,153,550,000**	3,789,375,000

For the six months ended 30 June 2019, the computation of diluted loss per share does not assume the conversion of the Consideration Convertible Bonds since their exercise would result in an decrease in loss per share.

There were no dilutive potential ordinary shares during the six months ended 30 June 2019, and therefore, diluted loss per share is the same as the basic loss per share.

The weighted average number of shares used for the purpose of calculating basic loss per share for the period ended 30 June 2018 is determined by reference to the number of ordinary shares issued for the Acquisition.

7. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Right-of-use assets		
Shops	**108,163**	—
Offices	**14,423**	—
Warehouses	**411**	—
	122,997	—

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Lease liabilities		
Minimum lease payment due		
— Within one year	**38,573**	—
— In the second to fifth years, inclusive	**115,208**	—
	153,781	—

The Group obtains right to control the use of various shops, offices and warehouses for a period of time through lease arrangements. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

During the six months ended 30 June 2019, total cash outflow for leases of approximately RMB38,033,000 was included in net cash used in financing activities.

Extension options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

8. TRADE RECEIVABLES

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Trade receivables	**11,319**	18,721
Less: Allowance for credit loss	**(3,785)**	(1,733)
	7,534	16,988

As at 30 June 2019 and 31 December 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 were as follows:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Up to 6 months	**4,445**	14,493
6 months to 1 year	**3,089**	2,495
1 to 2 years	**—**	—
2 to 3 years	**—**	—
Over 3 years	**—**	—
	7,534	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.

9. PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
Included in non-current assets:		
Rental deposits		
— non-current portion	**22,139**	22,717
Included in current assets:		
Rental and utilities prepayments	**8,764**	16,055
Raw materials procurement prepayments	**13,109**	15,096
Rental deposits		
— current portion	**7,034**	12,511
Value added tax inputs	**36,265**	32,038
Staff advances	**889**	998
Other receivables and prepayments due from related parties	**—**	2,813
Others	**1,761**	1,947
Less: Allowance for credit loss	**—**	(2,945)
	67,822	78,513

10. SHARE CAPITAL

Share capital of the Company

	Number of shares	Share capital
Authorised		
As at 31 December 2018, 30 June 2019	19,000,000,000	380

	Number of shares	Amount in HK$'000	Amount in RMB'000
Issued and fully paid			
As at 31 December 2018, 30 June 2019	5,153,550,000	103	87

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
Trade payables	**52,291**	63,933
Other payables	**62,895**	78,353
Staff costs and welfare accruals	**46,318**	53,431
	161,504	195,717

As at 30 June 2019 and 31 December 2018, the aging analysis of the trade payables based on invoice date were as follows:

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
Less than 1 year	**50,744**	61,144
1 to 2 years	**243**	1,842
2 to 3 years	**1,201**	853
Over 3 years	**103**	94
	52,291	63,933

12. EVENTS AFTER THE REPORTING PERIOD

On 15 July 2019, the Company received a conversion notice from one of the vendors, Ms. Hung Ying (洪瑩), exercising her right to convert all of the convertible bonds issued in her name in the principal amount of approximately HK$3,806,000 (equivalent to approximately RMB3,235,000) 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 (the "Conversion Shares") were allotted and issued by the Company to the vendor on 17 July 2019. Immediately after the allotment and issue of the Conversion Shares, the issued share capital of the Company has been increased from 5,153,550,000 Shares to 5,190,685,875 Shares. The Conversion Shares represent: (a) approximately 0.721% of the issued share capital immediately before the allotment and issue of the Conversion Shares; and (b) approximately 0.715% of the issued share capital as enlarged by the allotment and issue of the Conversion Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND 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.

Revenue

For the six months ended 30 June 2019 (the "Period"), the Group's revenue decreased by approximately 25.6% to approximately RMB237.9 million from approximately RMB319.7 million (restated) in the last corresponding period, which was mainly attributable to the decrease in the revenue of the hotpot business of its existing restaurants due to the decrease in customer flow impacted by the economic recession in mainland and keen competition in other restaurants which lead to lesser attraction from customers as compared to the six months ended 30 June 2018.

Foods and beverage and other materials consumables used

The Group's foods and beverage and other materials consumables costs mainly represent the costs of food ingredients for the hotpot business. The foods and beverage and other materials consumables costs decreased by approximately 25.9% to approximately RMB92.1 million for the six months ended 30 June 2019 from approximately RMB124.3 million (restated) in the last corresponding period. Gross profit margin of the Group remained stable at approximately 61.3% during the Period (2018: 61.1%).

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, mainly consist of wages and salaries, labour outsourcing expenses, defined contribution plan and other employee benefits.

The employee benefit and related expenses decreased by approximately 19.5% to approximately RMB69.2 million for the six months ended 30 June 2019 from approximately RMB86.0 million (restated) in the last corresponding period, which was mainly attributable to the decrease in wages and salaries expenses caused by the decrease in number of staff due to the closure of several restaurants during the Period, from approximately RMB20.0 million (restated) in 2018 to approximately RMB8.3 million in 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 149.6% to approximately RMB94.1 million for the six months ended 30 June 2019 from approximately RMB37.7 million (restated) in the last corresponding period, which was mainly attributable to the effects of the application of IFRS 16 on the expenditures spent on the leases of the restaurants the Group operates.

As at 30 June 2019, the Group leased 87 properties in Mainland China, the application of IFRS 16 will result in a higher total charge to the statement of profit or loss in the first few years of the lease in regarding to the deprecation charges of the right of use asset, and such expenses will decrease during the latter part of the lease term, therefore it is expected that no significant impact on the expenses recognized during the lease term.

Furthermore, several restaurants were impaired due to continuous loss-making situation. Under the application of IFRS 16, an impairment for right-of-use assets amounting to approximately RMB12.6 million was recorded during the Period.

Property rentals and related expenses

Further to the application of IFRS 16 as mentioned above, property rentals and related expenses decreased by approximately 75.6% to approximately RMB17.7 million for the six months ended 30 June 2019 from approximately RMB72.6 million (restated) in the last corresponding period.

Other expenses

The Group's other expenses, which mainly consist of cleaning fee, audit related fee and professional fees, decreased by approximately 40.6% to approximately RMB16.8 million for the six months ended 30 June 2019 from approximately RMB28.3 million (restated) in the last corresponding period, which was mainly attributable to the payment of professional fees incurred for the publication of documents in relation to the resumption work and the listing expenses incurred for the listing application in 2018, whereas no such one-off significant expenses was recorded during the Period.

Other (losses)/gains

The Group's other (losses)/gains mainly consist of (i) subsidies received from local governments for the Group's local business developments; and (ii) default fine received from/paid to landlord due to the early termination of certain lease agreement. During the Period, the Group recorded other losses of approximately RMB0.1 million as compared to other gains of approximately RMB2.6 million (restated) in 2018. Such turnaround from other gains to other losses was mainly attributable to the combined effect of (i) decrease in subsidies received amounting to approximately RMB1.0 million from approximately RMB1.8 million in 2018 to approximately RMB0.8 million during the Period; and (ii) the one-off gain arising from the receipt of default fine received from landlord due to the early termination of certain lease agreement amounting to RMB1.9 million in the last corresponding period (six months ended 30 June 2019: nil).

Finance income

The Group's finance income, which mainly consists of interest income received from loan to related parties and bank interest income, decreased by approximately 97.3% to approximately RMB0.1 million for the six months ended 30 June 2019 from approximately RMB3.7 million (restated) in the last corresponding period, which was mainly attributable to loans borrowed to related parties before the resumption, whereas no such kind of finance income was generated during the Period.

Finance expenses

The Group's finance expenses mainly represent interest expense on borrowings, imputed interest on convertible bonds and bank interest expenses on lease liabilities. During the Period, finance expenses of the Group increased by 810% to approximately RMB9.1 million from approximately RMB1.0 million (restated) in the last corresponding period, which was mainly due to (i) increase in imputed interest on convertible bonds to approximately RMB3.4 million during the Period (six months ended 30 June 2018: nil (restated)) upon the issue of convertible bonds on 4 July 2018; and (ii) increase in finance expenses charged on lease liabilities amounting to approximately RMB5.1 million resulted from the adoption of IFRS 16 as mentioned above.

Loss for the period

Loss for the Period attributable to owners of the Company was approximately RMB55.2 million (six months ended 30 June 2018: RMB27.4 million). Basic loss per share for the Period was approximately RMB0.01 cents (six months ended 30 June 2018: RMB0.01 cents (restated)). The increase in net loss was mainly attributable to (i) decrease in revenue of the hotpot business of its existing restaurants due to the decrease in customer flow impacted by the economic recession in mainland and keen competition in other restaurants which lead to lesser attraction from customers as compared to the last corresponding period; and (ii) effects of the adoption of IFRS 16 which resulted in the increase in expenditures spent on the lease of restaurants.

INTERIM DIVIDEND

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 June 2019, the Group recorded cash and bank balances (including restricted cash) amounting to approximately RMB50.2 million (31 December 2018: approximately RMB77.9 million) and the net current liabilities value was approximately RMB111.7 million (31 December 2018: approximately RMB53.5 million).

The net liabilities value per share of the Company was approximately RMB1.78 cents as at 30 June 2019 (31 December 2018: net liabilities value per share of approximately RMB0.82 cents). The net liabilities value per share was computed based on 5,153,550,000 and 4,476,238,151 shares in issue as at 30 June 2019 and 31 December 2018 respectively.

The Group's gearing ratio as at 30 June 2019 was approximately 0.26 (31 December 2018: 0.29), being a ratio of total debts, including borrowings and convertible bonds, of approximately RMB98.8 million (31 December 2018: RMB95.3 million) to the total assets of approximately RMB375.4 million (31 December 2018: approximately RMB323.5 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 30 June 2019, the Group utilised the net proceeds from the Share Placing as to approximately HK$18.68 million for the capital expenditure of 7 Xiao Faigo Hotpot and 1 Hong Yuanwai in Shanghai, Suzhou, Changsha, Xiamen and Nantong to expand and develop the business of the Group. The unutilised net proceeds have been placed as the interest bearing saving deposits with licensed banks in Hong Kong and the PRC. The Group plans to utilise the remaining proceeds from the Share Placing to open more restaurants under Faigo, Xiao Faigo Hotpot and Hong Yuanwai in order to expand and develop the business of the Group in the coming financial years as intended.

PLEDGE OF ASSETS

As at 30 June 2019, the Company had no charges on its assets (31 December 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

For the six months ended 30 June 2019, there was no change in the capital structure and issued share capital of the Company.

INVESTMENT POSITION AND PLANNING

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 Listing Rules for the six months ended 30 June 2019.

CONNECTED TRANSACTIONS

For the six months ended 30 June 2019, the Company did not have any connected transactions which were subject to the reporting requirements under Chapter 14A of the Listing Rules.

AUDIT QUALIFICATIONS

The auditors of the Company (the "Auditors") made audit qualification on the audited financial statements of the Company for the year ended 31 December 2018 which was mainly due to certain amount due to a deconsolidated subsidiary and the accrued expenses and other payables (collectively, the "Unknown Sum") of the Group brought forward from 1 January 2018, which affected the determination of the effect of reverse takeover transaction took place during the year ended 31 December 2018. When assessing whether and when the disclaimer of opinion will be removed, the Auditors discussed with the management of the Company about the future development of the Group and considered the documents available.

The Company has used its best effort to identify the nature of the Unknown Sum including publishing a public notice on certain Hong Kong newspapers which invited any potential creditors to inform the Company of any debts or claims.

The Auditors consider that they are unable to perform any audit procedures such as, among others, sending audit confirmations or reviewing the underlying books and records, to verify the existence and accuracy of those balances and they did not have sufficient information to assess whether the Group had a present obligation in respect of the Unknown Sum. As the Unknown Sum is required to be included in the calculation when determining the effect of the reverse takeover transaction took place during the year ended 31 December 2018, which had a material impact to the Group's profit or loss for the year ended 31 December 2018, it resulted the disclaimer of opinion being issued.

The Auditors considered that, among other reasons, given actions founded on simple contract shall not be brought after 6 years from the day on which the course of action 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 day when the liabilities were due (unless such liability was created under deed, in which case, the limitation period shall be 12 years from the day of the liabilities were due) and any payment obligation by the Company is likely to be expired by 31 December 2019, the Auditors considered that the audit qualifications relating to the Unknown Sum would be removed for the year ending 31 December 2019.

The audit committee of the Company concurs with the view of the Auditors on the audit qualifications and steps which may be taken to address the audit qualifications. The audit committee of the Company confirms that they have reviewed and agreed with the directors' position with regard to the audit qualifications.

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 Company as at 30 June 2019 was 2,876 (31 December 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.

EVENTS AFTER REPORTING PERIOD

Save as disclosed in note 12 to the interim condensed financial statements, there is no other significant events occurred after the reporting date and up to the date of this announcement.

PROSPECTS

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.

PURCHASE, SALE OR REDEMPTION 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 Period.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 10 October 2010 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee comprises three independent non-executive Directors, namely, Mr. Ha Kee Choy Eugene (being the chairman of the Audit Committee), Mr. Chan Chun Yiu Thomas and Mr. Tam Bing Chung Benson.

The Audit Committee has reviewed with the Board the accounting principles and practices adopted by the Company and discussed the internal control and financial reporting matters including the review of the unaudited condensed interim financial statements and results of the Company for the six months ended 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

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 as a whole. The Board strived to uphold good corporate governance and adopt sound corporate governance practices. The principles and the code provisions of the CG Code contained in Appendix 14 of the Listing Rules have been adopted by the Company.

In accordance with the requirements of the Listing Rules, the Company has established the Audit Committee with defined term of reference. The Company has also established a nomination committee and a remuneration committee with defined terms of reference. The terms of reference of these Board committees are available on the Stock Exchange's website and the Company's website.

During the six months ended 30 June 2019, the Company has 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 of the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors held offices during the six months under review. All Directors 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 six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 interim report of the Company will be despatched to the shareholders 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, 22 August 2019

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.