LONG WELL INTERNATIONAL HOLDINGS LIMITED
久康國際控股有限公司

(formerly known as "Tou Rong Chang Fu Group Limited 投融長富集團有限公司")

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 850)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

Reference is made to the final annual results (the "**2020 Annual Results**") of Long Well International Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2020. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the 2020 Annual Results.

The board (the "**Board**") of directors (the "**Directors**") of the Company wish to provide additional information in relation to the 2020 Annual Results.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW ON CONSOLIDATED OPERATING RESULTS

During the year ended 31 March 2020, the Group achieved a revenue of approximately HK$25,403,000 (2019: HK$105,502,000) and a gross profit of approximately HK$23,538,000 (2019: HK$70,066,000), representing a decrease of 75.9% and 66.4% from the year of 2019 respectively.

The decrease in revenue and gross profit was mainly attributable to decrease in trading volume in the commodity trading segment.

The Group recorded consolidated operating loss of approximately HK$169,349,000 (2019: HK$339,330,000) representing a decrease of 50.1% from the year of 2019. Decrease in operating loss of the Group was mainly due to decrease in allowance for credit losses on trade receivables and decrease in impairment losses of assets relating to a PRC subsidiary.

BUSINESS REVIEW

Commodity trading

In the reporting period, the commodity trading business (the "**Commodity Trading Business**") recorded total revenue of approximately HK$6,124,000 (2019: HK$72,796,000) which accounted for 24.1% of the Group's revenue (2019: 69.0%), representing a decrease of 91.6% as compared with the year of 2019. This was mainly due to decrease in trading volume in oil products and non-oil product lines particularly plastic materials products, chemical products and display driver IC products during the reporting period.

Since the beginning of 2020, the outlook of the global economy has been filled with uncertainties, in particular, with two major events that have had adverse impact on the development of the Group's Commodity Trading Business, i.e. the outbreak of COVID-19 and the oil price war between Russia and Saudi Arabia.

Due to the outbreak of COVID-19, the global economy has been facing increasing pressure and the overall economic activities have slowed down with widespread lockdowns of cities, resulting in a significant drop in manufacturing purchasing managers index and GDP growth across different countries. Global economic activities have been reduced and therefore it is likely to affect the development of the Group's commodity trading business. The collapse in worldwide demand for oil resulted from the outbreak of COVID-19 has led to a drastic decrease in oil price and created oversupply of oil. Furthermore, the disagreement between Saudi Arabia and Russia, two major oil production countries, on reducing oil production has a negative impact on the oil price. The oil price level remains at a relatively low level as compared to the level in 2019. The Company believes that the Group's business environment will continue to be challenging in the short to medium term as it takes time for economic recovery. For the reporting period, the trading volume of oil products of the Group decreased as compared with last year.

During the reporting period, the Group has reviewed and enhanced its own internal control procedures in this business segment to mitigate the internal control risks. The Group has also taken the initiative to diversify its supplier base to avoid reliance on a limited number of supply channels. Leveraging on the benefit of closer supervision, more efficient reporting system and enhanced internal control, the Group shall be able to further expand its own customers and suppliers network, broaden its product base, and strengthen the communication with its customers and suppliers.

As for the oil products trading, the Group recorded revenue from customers of approximately HK$6,085,000 for the reporting period (2019: HK$36,944,000), representing a decrease of 83.5% as compared with 2019. A total of 95,676 tons (2019: 459,790 tons) of oil products were traded in China and other Asia Pacific countries and maintaining steady gross profit.

To ensure a steady profit growth in Commodity Trading Business and achieve risk diversification, our operating teams carried out nonoil product lines for tradings. During the reporting period, revenue of approximately HK$39,000 (2019: HK$35,852,000) was generated from these product lines.

Looking forward into the next year, our operation teams will put effort to expand markets and the business scale, including the trading transactions of more new product categories, and aim to lead the Group's commodity trading business into a new field and increase the Group's competitiveness in the field of commodity trading.

Crude oil

The Group owns 96% interest of an indirect subsidiary 齊齊哈爾市東北石油開發有限責任公司, which owns an oilfield project in Fularji District near Qiqihar City of Heilongjiang Province of China ("**Oilfields**").

During the reporting period, for the purpose of renewing the licence《安全生產許可證》 for the forthcoming operation in the Oilfields, the modification works to the Oilfields have been completed in accordance with the local fire safety requirements and the inspection of the fire safety modification has been completed. The Oilfields subsequently obtained the acceptance from the relevant governmental department for the PRC fire safety modification. The outbreak of COVID-19 has caused some delays to this process. The renewal of the licence《安全生產許可證》is expected to be completed by late of 2020.

The management has been monitoring the crude oil market and oil price trend in order to determine the appropriate time to re-launch the crude oil business. One of the major reasons for the re-launch was due to the gradual increase in the global oil price in 2019. However, in view of the significant drop in global oil price in March 2020 due to the oil price war between Russia and Saudi Arabia, the management is still re-evaluationg its development plan for the Oilfields operation and the management would continue to monitor the latest development of the crude oil market while equipping the Group with the ability to resume production of crude oil at an appropriate time.

Financial services

The financial services segment includes money lending, securities brokerage and asset management businesses.

(a) Money lending

Two indirect wholly-owned subsidiaries of the Company, China-Hong Kong Link Finance Company Limited and PetroAsian Energy Finance Limited have obtained the money lending licences in Hong Kong. During the reporting period, interest revenue was approximately HK$13,046,000 (2019: HK$19,468,000), representing a decrease of 33.0% and the decrease was mainly due to decrease in the outstanding balance of loan receivable.

The licensing of money lenders and regulation of money-lending transactions are governed by the Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong. The market of money lending business by licensed money lenders in Hong Kong is keen and competitive. In order to optimise the funding use in business but also to ensure the compliance of the related laws and regulations, the operation team has established a credit policy and loan approval process to minimise the credit risk.

(b) Securities brokerage

An indirect wholly-owned subsidiary of the Company, China-Hong Kong Link Securities Company Limited ("**CHKLS**") has obtained a licence by Securities and Futures Commission of Hong Kong to carry out type 1 (dealing in securities) regulated activities on 30 September 2015. The Group commenced the business on 30 March 2017. During the reporting period, CHKLS mainly provided securities brokerage, underwriting and placements services. CHKLS has successfully acted as placing agents, co-lead managers and underwriters for several listed companies in Hong Kong. During the reporting period, CHKLS has generated revenue of approximately HK$1,513,000 (2019: HK$4,895,000) to the Group, representing a decrease of 69.4% and the decrease was mainly attributable to decrease in referral fee income received.

(c) Asset management

To cope with the development strategy of stepping into the financial services market in Hong Kong, an indirect wholly owned subsidiary of the Company, China Hong Kong Link Asset Management Limited ("**CHKLAM**") has successfully obtained a licence by SFC Hong Kong to carry out type 9 (asset management) regulated activities on 16 February 2018. On 7 May 2018, CHKLAM also successfully obtained a licence by Securities and Futures Commission of Hong Kong to carry out type 4 (advising on securities) regulated activities.

Insurance brokerage

The Group's wholly-owned subsidiary, People Insurance Broker Limited, is carrying out insurance brokerage service in Hong Kong with the licence to transact all types of general insurance business and long term insurance business in Hong Kong. During the reporting period, the insurance brokerage income was approximately HK$2,048,000 (2019: HK$3,260,000) representing a decrease of 37.2%.

The sudden global economic recession triggered by COVID-19, the oil price war between Russia and Saudi Arabia, and the looming uncertainties about China's economic recovery, will undoubtedly weaken international demand in the second and third quarters of 2020. This is not a normal recession but it will take time to resume the same level of economic activity pre-crisis and the same growth rate. Despite the above uncontrollable events, the Group has actively maintained and expanded its business. Under the current circumstance, the Group will continue to focus on developing the Group's current operations, identify suitable business opportunities and closely monitor the latest economic situation when implementing its business plans as needed.

In 2018, the Stock Exchange announced new IPO rules to allow companies with weighted voting right structures. It also established a new concessionary secondary listing route for companies based in the Mainland China and abroad, wishing for a second listing in Hong Kong. The new rules have basically reformed the listing regime and will make listing more flexible. Also the return of China concept stocks will benefit the Hong Kong stock market in the long run as it will introduce new funds and capitals to the market. The directors expected revenue growth with promising market outlook, the Group intends to deploy more resources in money lending, securities brokerage and asset management services business.

FINANCIAL REVIEW

Revenue and operating review

The Group recorded a consolidated revenue of approximately HK$25,403,000 (2019: HK$105,502,000), representing a decrease of 75.9% from the year of 2019. The Group's loss for the year attributable to owners of the Company was approximately HK$237,139,000 (2019: HK$402,320,000). Basic loss per share of HK$2.64 cents (2019: HK$4.49 cents). The decline of the Group's results reflected a decrease in trading profit in Commodity Trading Business segment, impairment losses of prepayments, deposits and other receivables and increase in interest expenses on bonds.

Allowance for credit losses on trade receivables

The Group's largest customer within the Commodity Trading Business segment which has a significant outstanding trade receivable balance due to the Group with gross carrying amount of HK$401,206,000 (2019: HK$711,733,000) as at 31 March 2020 was assessed for allowance for credit losses individually. The management assessed for the allowance for credit losses by estimating default rate taking into account historical and forward looking information. The cumulative balance of impairment allowance on the trade receivable due from the Group's largest customer stood at HK$218,000,000 as at 31 March 2020 (2019: HK$218,000,000).

Loss of assets of a PRC subsidiary

During the year ended 31 March 2019, the Group recognised the impairment losses on prepayments paid to suppliers according to certain supply agreements ("**Supply Agreements**") entered and full impairment loss of bank balances ("**Relevant Accounts**") of a PRC subsidiary amounting to approximately HK$68,107,000 and HK$23,131,000 respectively.

Reference is made to the announcements of the Company dated 8 March 2019 and 28 June 2019 and Note 12 to the consolidated financial statements in relation to certain affairs of the PRC subsidiary, the Board has subsequently taken the following remedy actions:

(i) An independent review expert has been appointed by the Board and has completed their review on the Relevant Accounts of and the Supply Agreements to assist the Audit Committee and the Company's advisers for understanding of the matters in relation to the PRC subsidiary;

(ii) The Board has engaged an independent PRC legal adviser to review the Supply Agreements and assist the Group to recover the prepayments and assist the liaise with the bank and to take appropriate steps to unfreeze bank account; and

(iii) The Board has engaged an independent PRC legal adviser and has been seeking advice from them to assess the feasibility to report the suspected criminal offences pertaining to the Supply Agreements and the Relevant Accounts to the PRC police.

Working capital

As at 31 March 2020, the Group's current assets were kept at approximately HK$464,486,000 (2019: HK$724,719,000) whilst current liabilities were approximately HK$173,590,000 (2019: HK$169,022,000). The current ratio, being the proportion of total current assets against current liabilities, was 2.7 (2019: 4.3). The present working capital is at a comfortable level to meet the upcoming operating needs.

Liquidity and financial resources

The Group generally finances its operations with internally generated cash flows and facilities provided by its principal bankers in Hong Kong and in China.

The Group had cash and bank balances of approximately HK$46,187,000 as at 31 March 2020 (2019: HK$82,768,000). The Group had cash and bank balances which were mostly held in Hong Kong dollars and Renminbi.

As at 31 March 2020, the Group's outstanding bank borrowings, bonds and other borrowing were approximately HK$Nil (2019: 32,182,000), HK$716,455,000 (2019: HK$684,552,000) and HK$25,675,000 (2019: HK$Nil) respectively, while total assets were approximately HK$749,237,000 (2019: HK$988,368,000).

The gearing ratio, calculated by dividing the total borrowings by the total assets, was 99.1% as at 31 March 2020 (2019: 72.5%).

INFORMATION ON CRUDE OIL RESERVES AS OF 31 MARCH 2020

During the year ended 31 March 2019, the management appointed APEX Reservoir Service Inc. ("**APEX**") as independent professional technical valuer to evaluate the estimated oil reserve of Qiqihar oilfield as of 31 March 2019.

The reserves evaluation performed by APEX was conducted in accordance with Petroleum Resources Management System (the "**PRMS**"), an internationally recognised reserve standards and guideline. The evaluation subject was petroleum asset (the "**Asset**") owned by the Company in its Oilfields in Fularji, including Fu 710, Fu 718 and Meilisi 723. According to the PRMS definition, the oil reserve should be classified into Proved reserve ("**P1**"); Probable reserve ("**P2**") and Possible reserve ("**P3**"). According to the 富拉爾基油田投融長富集團有限公司合同區石油儲量報告 (the "**Technical Report**") dated 30 September 2019 prepared by APEX, the total 1P, 2P ("**sum of P1 and P2**") and 3P ("**sum of P1, P2 and P3**") reserve of the Oilfields as of 31 March 2019, are approximately 491,000 tons, 1,236,000 tons and 1,671,000 tons respectively.

The crude oil reserves of the Oilfields

Block	**Proved reserve** *('000 tons)*	**Probable reserve** *('000 tons)*	**Possible reserve** *('000 tons)*	**Total oil reserve** *('000 tons)*
Fu 710	455.3	587.1	356.7	1,399.1
Fu 718	—	56.3	20.6	76.9
Meilisi 723	35.9	101.7	57.8	195.4
Total Oilfields	491.2	745.1	435.1	1,671.4

Explanation for reserve

Report on crude oil reserve	**Proved reserve** *('000 tons)*	**Probable reserve** *('000 tons)*	**Possible reserve** *('000 tons)*	**Total oil reserve** *('000 tons)*
Crude oil reserve				
As at 31 March 2019	491	745	435	1,671
As at 31 March 2020*	491	745	435	1,671

* According to the Technical Report dated 30 September 2019 prepared by APEX Reservoir Service Inc. and no mining record since the report date, the crude oil reserve as at 31 March 2020 is same as 31 March 2019.

VALUATION METHODOLOGY

Discounted Cash-flow Method for the Valuation of the Equity Interests of the Oilfields

For the valuation of the equity interests of the Oilfields, we have adopted the Discounted Cash-Flow Method. The discounted cash-flow method is premised on the concept that the value is based on the present value of all future benefits that flow to the shareholder by applying an appropriate discount rate. These future benefits consist of current income distributions, appreciation in the property, or a combination of both. In essence, this valuation method requires a forecast to be made of cash-flow, going out far enough into the future until an assumed stabilization occurs for the assets being appraised. This methodology assumes that the forecasted income/cash-flow will not necessarily be stable in the near term but will stabilize in the future.

The recoverable amount of the Oilfields as of 31 March 2020 is provided by an independent valuer, AP Appraisal Limited.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at end of the reporting year.

EXPOSURE TO FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group's business transactions are mainly denominated in United Stated dollars, Hong Kong dollars and Renminbi. Most of the Group's bank borrowings are interest bearing at floating rate basis. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. The Group also uses derivative financial instruments to manage interest rate exposures for hedging purpose only.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group has an aggregate of 51 (2019: 63) employees of whom about 17 (2019: 24) were located in Mainland China while the rest were based in Hong Kong, Republic of Kazakhstan and Macau. The employees' remuneration package includes salary, bonus and share options. Pursuant to the Group's remuneration policy, employees are rewarded on the basis of merit and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees locate.

DIVIDEND

The Board of Directors does not recommend the payment of any dividend during the year (2019: Nil).

EVENTS AFTER REPORTING PERIOD

On 25 March 2020, the Group entered into a provisional sale and purchase agreement to dispose of an investment property owned by an indirectly wholly owned subsidiary of the Company to an independent third party for a cash consideration of approximately HK$34,500,000. The investment property is located at Flat B, 52nd Floor, Tower 2 together with car parking space No. 1053, 1st Floor, Manhattan Hill, No. 1 Po Lun Street, Kowloon, Hong Kong. The disposal transaction was completed on 12 June 2020.

On 25 September 2020, the Company and Mr. Wang Chao, a substantial shareholder of the Company, entered into a shareholder's loan agreement, pursuant to which Mr. Wang Chao agreed to grant an interest-free and unsecured non-revolving loan facility (the "**Facility**") of up to HK$300,000,000 to the Company for a term from 25 September 2020 to 31 December 2022. An amount of up to HK$100,000,000 and HK$200,000,000 of the Facility can be drawn down on or before 31 December 2020 and 31 March 2021, respectively.

FUTHER INFORMATION IN RESPECT OF AUDITOR'S DISCLAIMER OF OPINION

As disclosed in the sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in the Independent Auditor's report contained on pages 87 to 89 of the annual report of the Company for the year ended 31 March 2020 (the "**2020 Annual Report**"), the Company's auditor (the "**Auditor**") issued a disclaimer opinion (the "**Audit Modification**") on the consolidated financial statements of the Group for the year ended 31 March 2020. As detailed in note 2 ("**Note 2**") to the consolidated financial statements for the year ended 31 March 2020 as set out in the 2020 Annual Report, conditions existed such to indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Going concern

Details of the Audit Modification

The Group incurred a loss for the year attributable to owners of the Company of approximately HK$237,139,000 during the year ended 31 March 2020 and had net liabilities of approximately HK$74,992,000 as at 31 March 2020. Also the Group recorded net cash outflows in operating activities of approximately HK$85,742,000 for the year ended 31 March 2020 and as at 31 March 2020, the Group had bank and cash balances of approximately HK$46,187,000. These figures indicate that a material uncertainty exists as the Group's ability to continue as a going concern.

In preparing the consolidated financial statements, the Company explained to the Auditor that they have taken or will continue to implement the financing plans and measures as detailed in Note 2 of the consolidated financial statements of the Group (including but not limited to: (a) negotiating with the debtors to settle their outstanding past due trade receivables and loan receivables; (b) renewed certain bonds upon maturity; (c) disposed of an investment property; and (d) seeking new sources of funding from a substantial shareholder in the form of interest-free and unsecured shareholder's loan). However, in view of the extent of the uncertainty relating to the successful outcome of such financing plans and measures (as detailed in Note 2 of the consolidated financial statements), the Auditor disclaimed its opinion.

Any adjustments might have a significant consequential effect on the Group's consolidated financial performance for the year ended 31 March 2020 and the consolidated financial position of the Group as at 31 March 2020 and the related disclosures thereof in the consolidated financial statements.

Management's position and basis on major judgmental areas

In view of such circumstances, the management has given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The management has also taken or will continue to implement the said financing plans and measures as further detailed in Note 2 to mitigate the Group's liquidity pressure and improve the conditions of cash flow, and on the assumption of successful and continued implementation of such measures, and taking into account the Group's cash flow projections which covers a period of not less than 12 months from 31 March 2020, the Directors are satisfied that it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

Audit Committee's view

The Audit Committee had discussed and reviewed with the management and the Auditor with regard to the basis of the Audit Modification, the management's position and the financial plans and measures of the Group to address the Audit Modification. The Audit Committee agreed with the Board's position and is also of the view that the management should continue its efforts in implementing the actions and measures with the intention of improving the net liabilities position of the Group, mitigating the Group's liquidity pressure, and removing the Audit Modification.

Action Plan

The Company has taken and will take the following measures to improve its liquidity and financial position, and to remediate its net liabilities position:

(a) The Company will continue with its frequent communications with the debtors and negotiating with debtors to settle their outstanding balances;

(b) The Company will continue to negotiate with bondholders to renew their bonds upon maturity; and

(c) The Group will continue to seek new sources of funding in the form of debt and, or equity.

The Directors, including the Audit Committee, believe that the above financing plans and measures, if materialized and given there is no adverse change to the financial position, operations and investments of the Group, will not only bring to the Group an improvement on the financial performance but also address and remove the Audit Modification in respect of going concern in the next financial year ending 31 March 2021.

CORPORATE GOVERNANCE

The Group has adopted the Corporate Governance Code ("**Code**") as set out in Appendix 14 of the Listing Rules as the corporate governance codes of the Company. During the reporting year, the Company has adopted and complied with all the Code Provisions set out in the Code except for the deviations as follows:

The Independent Non-executive Directors ("**INEDs**") of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable to those in the Code Provisions.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of the securities of the Company during the year

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended from 9:00 a.m. on 3 July 2018 and will remain suspended until further notice pending fulfilment of the Resumption Guidance.

Further announcement(s) will be made by the Company to inform the Shareholders and potential investors of any material development relating to the captioned matters as and when appropriate.

By order of the Board
Long Well International Holdings Limited
Huang Guobiao
Chairman

Hong Kong, 8 October 2020

As at the date of this announcement, the Board comprises (i) four executive Directors, namely Mr. Huang Guobiao, Mr. Wong Kwok Leung, Professor Kwong Ser Yuen Albert and Mr. Lee Siu Fung; (ii) one non-executive Director, namely Mr. Wu Hao; and (iii) three independent non-executive Directors, namely Mr. Cheung Kwan Hung, Mr. Lam Tze Chung Felix and Mr. Choi Ho Yan.