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Winning Tower Group Holdings Limited

運興泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8362)

**ANNUAL RESULTS ANNOUNCEMENT FOR
THE YEAR ENDED 31 DECEMBER 2019**

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG
LIMITED (THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The board of directors (the “**Board**”) of Winning Tower Group Holdings Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019, together with the comparative results for the previous year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| REVENUE | 5 | 134,741 | 136,218 |
| Cost of inventories consumed | | (90,836) | (88,514) |
| Other income | | 2,946 | 1,487 |
| Employee benefit expenses | | (21,346) | (21,246) |
| Depreciation | | (9,735) | (7,140) |
| Transportation and storage fee | | (3,614) | (3,560) |
| Utilities and consumables | | (3,097) | (2,992) |
| Rental and related expenses | | (1,497) | (1,506) |
| Other operating expenses | | (15,986) | (7,462) |
| PROFIT/(LOSS) BEFORE TAX FROM OPERATIONS | | (8,424) | 5,285 |
| Finance costs | | (729) | (549) |
| PROFIT/(LOSS) BEFORE TAX | 6 | (9,153) | 4,736 |
| Income tax expense | 7 | (188) | (1,167) |
| PROFIT/(LOSS) FOR THE YEAR | | (9,341) | 3,569 |
| Attributable to: | | | |
| Owners of the Company | | (7,602) | 3,555 |
| Non-controlling interests | | (1,739) | 14 |
| | | (9,341) | 3,569 |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | |
| — Basic and diluted (expressed in HK cents per share) | 9 | (0.54) | 0.25 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| PROFIT/(LOSS) FOR THE YEAR | <u>(9,341)</u> | <u>3,569</u> |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | |
| Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods: | | |
| Revaluation surplus, net | 1,418 | 15,102 |
| Deferred tax debited to the asset revaluation reserve | (234) | (2,492) |
| Deferred tax credited to asset revaluation reserve upon disposal of assets | <u>6,733</u> | <u>–</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | <u>7,917</u> | <u>12,610</u> |
| TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR | <u><u>(1,424)</u></u> | <u><u>16,179</u></u> |
| Attributable to: | | |
| Owners of the Company | 315 | 16,165 |
| Non-controlling interests | <u>(1,739)</u> | <u>14</u> |
| | <u><u>(1,424)</u></u> | <u><u>16,179</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

| | <i>Notes</i> | 2019 | 2018 |
|--|--------------|-----------------|----------|
| | | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 33,952 | 139,320 |
| Right-of-use assets | | 67,556 | – |
| Goodwill | | – | 2,302 |
| Prepayments, deposits and other receivables | | 1,123 | – |
| Due from a related party | | – | 130 |
| Deferred tax assets | | 273 | 388 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 102,904 | 142,140 |
| | | <hr/> | <hr/> |
| CURRENT ASSETS | | | |
| Inventories | | 5,737 | 4,953 |
| Trade receivables | <i>11</i> | 16,729 | 19,850 |
| Prepayments, deposits and other receivables | | 4,576 | 3,170 |
| Due from related parties | | 8 | 577 |
| Tax recoverable | | 949 | 796 |
| Cash and cash equivalents | | 65,327 | 21,668 |
| | | <hr/> | <hr/> |
| Total current assets | | 93,326 | 51,014 |
| | | <hr/> | <hr/> |
| CURRENT LIABILITIES | | | |
| Trade payables | <i>12</i> | 5,611 | 6,105 |
| Other payables and accruals | | 7,683 | 4,412 |
| Due to a related party | | – | 121 |
| Interest-bearing bank borrowings | <i>13</i> | 2,472 | 2,337 |
| Lease liabilities | | 2,283 | – |
| Tax payable | | 222 | 287 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 18,271 | 13,262 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 75,055 | 37,752 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 177,959 | 179,892 |
| | | <hr/> | <hr/> |

| | <i>Notes</i> | 2019 HK\$'000 | 2018 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | <i>13</i> | 22,617 | 25,023 |
| Lease liabilities | | 8,333 | – |
| Deferred tax liabilities | | 5,301 | 11,737 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 36,251 | 36,760 |
| | | <hr/> | <hr/> |
| Net assets | | 141,708 | 143,132 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 14,000 | 14,000 |
| Reserves | | 125,477 | 125,162 |
| | | <hr/> | <hr/> |
| | | 139,477 | 139,162 |
| Non-controlling interests | | 2,231 | 3,970 |
| | | <hr/> | <hr/> |
| Total equity | | 141,708 | 143,132 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Flat 3, 8/F, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The Group is principally engaged in the processing and trading of raw, frozen and cooked food products, the provision of transportation services and the operation of a restaurant. In the opinion of the directors, the ultimate holding company of the Company is Keyview Ventures Limited, a company incorporated in the British Virgin Islands with limited liability.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for leasehold land and buildings held for the Group's own use classified as right-of-use assets and property, plant and equipment, respectively, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|--|---|
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |
| HKFRS 16 | <i>Leases</i> |
| Amendments to HKAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |
| Amendments to HKAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments</i> |
| <i>Annual Improvements to HKFRSs 2015–2017 Cycle</i> | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Other than as explained below, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulated losses at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of premises. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases. Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets (i.e., leasehold land) of HK\$91,680,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Using hindsight in determining the lease term where the contract contains options to extend the lease;
- Relying on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review; and
- Excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

| | Increase/ (decrease) HK\$'000 |
|---|--|
| Assets | |
| Increase in right-of-use assets | 93,753 |
| Decrease in property, plant and equipment | (91,680) |
| | <hr/> |
| Increase in total assets | 2,073 |
| | <hr/> <hr/> |
| Liabilities | |
| Increase in lease liabilities and total liabilities | 2,073 |
| | <hr/> <hr/> |

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

| | <i>HK\$'000</i> |
|--|-----------------|
| Operating lease commitments as at 31 December 2018 | 65 |
| Add: Payments for optional extension periods not recognised as at 31 December 2018 | 2,080 |
| | <hr/> |
| | 2,145 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 2.43% |
| | <hr/> |
| Discounted operating lease commitments and lease liabilities as at 1 January 2019 | 2,073 |
| | <hr/> <hr/> |

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered the interpretation did not have any impact on the financial position or performance of the Group.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) processing and trading of food products; and
- (b) restaurant operation.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income and non-lease-related finance costs are excluded from such measurement.

Segment assets exclude cash and cash equivalents as these assets are managed on group basis.

Segment liabilities exclude interest-bearing bank borrowings as these liabilities are managed on group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Operating segment information

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31 December 2019 and 2018.

Segment revenue/results:

| | Processing and trading of food products | | Restaurant operation | | Elimination | | Total | |
|--|--|------------------|-------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Sales to external customers | 131,613 | 136,218 | 3,128 | - | - | - | 134,741 | 136,218 |
| Intersegment sales | 282 | - | - | - | (282) | - | - | - |
| Total | <u>131,895</u> | <u>136,218</u> | <u>3,128</u> | <u>-</u> | <u>(282)</u> | <u>-</u> | <u>134,741</u> | <u>136,218</u> |
| Segment results | (7,866) | 5,200 | (876) | - | - | - | (8,742) | 5,200 |
| Interest income | | | | | | | 221 | 85 |
| Finance costs (other than interest on leases) | | | | | | | (632) | (549) |
| Profit/(loss) before tax | | | | | | | (9,153) | 4,736 |
| Income tax expense | | | | | | | (188) | (1,167) |
| Profit/(loss) for the year | | | | | | | <u>(9,341)</u> | <u>3,569</u> |

Segment assets/liabilities:

| | Processing and trading of food products | | Restaurant operation | | Elimination | | Total | |
|---|--|----------|-------------------------|----------|-------------|----------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 129,269 | 171,486 | 4,474 | - | (2,840) | - | 130,903 | 171,486 |
| Unallocated | | | | | | | 65,327 | 21,668 |
| | | | | | | | <u>196,230</u> | <u>193,154</u> |
| Segment liabilities | 26,183 | 22,662 | 6,090 | - | (2,840) | - | 29,433 | 22,662 |
| Unallocated | | | | | | | 25,089 | 27,360 |
| | | | | | | | <u>54,522</u> | <u>50,022</u> |
| Other segment information: | | | | | | | | |
| Depreciation of items of property, plant and equipment | 6,015 | 7,140 | 214 | - | - | - | 6,229 | 7,140 |
| Depreciation of right-of-use assets | 3,506 | - | - | - | - | - | 3,506 | - |
| Impairment of property, plant and equipment | 637 | - | - | - | - | - | 637 | - |
| Impairment of goodwill | 2,302 | - | - | - | - | - | 2,302 | - |
| Impairment of trade receivables | 197 | 56 | - | - | - | - | 197 | 56 |
| Write-off of items of property, plant and equipment | 4 | 28 | - | - | - | - | 4 | 28 |
| Gain on disposal of items of property, plant and equipment | (287) | - | - | - | - | - | (287) | - |
| Gain on sale and leaseback transaction | (976) | - | - | - | - | - | (976) | - |
| Additions of property, plant and equipment | 273 | 15,601 | 3,775 | - | - | - | 4,408 | 15,601 |
| Additions of right-of-use assets | 7,531 | - | - | - | - | - | 7,531 | - |

(b) Geographical information

Since all of the Group's revenue from external customers are conducted and non-current assets are located in Hong Kong, no further analysis on the geographical information thereof is presented.

(c) Information about major customers

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------|------------------|------------------|
| Customer A # | 35,456 | 43,213 |
| Customer B # | 24,705 | 25,817 |
| Customer C # | 12,877 | 18,046 |

Included sales to a group of entities which are known to be under common control with that customer

5. REVENUE

An analysis of revenue is as follows:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Revenue from contracts with customers | 134,741 | 136,218 |

Disaggregated revenue information

| Segments | Processing and trading of food products | | Restaurant operation | | Total | |
|---|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
| Type of goods or services | | | | | | |
| Sales of goods | 127,796 | 132,443 | – | – | 127,796 | 132,443 |
| Income from the provision of transportation services | 3,817 | 3,775 | – | – | 3,817 | 3,775 |
| Income from the operation of a restaurant | – | – | 3,128 | – | 3,128 | – |
| Total revenue from contracts with customers | 131,613 | 136,218 | 3,128 | – | 134,741 | 136,218 |

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Cost of inventories consumed | 90,836 | 88,514 |
| Depreciation of property, plant and equipment | 6,229 | 7,140 |
| Depreciation of right-of-use assets | 3,506 | – |
| Total depreciation | <u>9,735</u> | <u>7,140</u> |
| Minimum lease payments under operating leases | – | 645 |
| Lease payments not included in the measurement of lease liabilities | 520 | – |
| Other related expenses | 977 | 861 |
| Total rental and related expenses | <u>1,497</u> | <u>1,506</u> |
| Directors' remuneration | 5,561 | 5,526 |
| Employee benefit expenses (excluding directors' remuneration): | | |
| Salaries, wages and other benefits | 15,167 | 15,083 |
| Pension scheme contributions | 618 | 637 |
| Total employee benefit expenses | <u>21,346</u> | <u>21,246</u> |
| Auditor's remuneration | 1,136 | 1,014 |
| Impairment of trade receivables | 197 | 56 |
| Impairment of goodwill | 2,302 | – |
| Impairment of property, plant and equipment | 637 | – |
| Write-off of items of property, plant and equipment | 4 | 28 |
| Gain on disposal of items of property, plant and equipment | (287) | – |
| Gain on sale and leaseback transaction (<i>note 10</i>) | (976) | – |
| Bank interest income | (221) | (85) |

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/19. The first HK\$2,000,000 (2018: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Current — Hong Kong | | |
| Charge for the year | 70 | 1,148 |
| Overprovision in prior years | (60) | (66) |
| Deferred | <u>178</u> | <u>85</u> |
| Total tax charge for the year | <u>188</u> | <u>1,167</u> |

8. DIVIDEND

The board of directors does not recommend a payment of a final dividend for the year ended 31 December 2019. In the prior year, no dividend had been paid or declared by the Company.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Earnings/(loss) | | |
| Profit/(loss) attributable to owners of the Company used in the basic earnings/(loss) per share calculation | <u>(7,602)</u> | <u>3,555</u> |
| | Number of shares | |
| | 2019 | 2018 |
| | <i>'000</i> | <i>'000</i> |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation | <u>1,400,000</u> | <u>1,400,000</u> |
| Earnings/(loss) per share | | |
| Basic (HK cents) | <u>(0.54)</u> | <u>0.25</u> |

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years.

10. LEASES

Sale and leaseback transaction

On 2 July 2019, the Group entered into the property disposal agreements with Iao Ip Property Investment Company Limited (“**Iao Ip**”), a related party of the Group, to sell two properties located in Hong Kong (the “**Properties**”) at a total consideration of HK\$45,516,000. At the date of disposal, the carrying amounts of the right-of-use assets (i.e. leasehold land) and buildings were HK\$32,310,000 and HK\$10,103,000, respectively.

On 30 September 2019, the Group entered into tenancy agreements with Iao Ip, pursuant to which Iao Ip agreed to lease back the Properties for a term of three years from 30 September 2019 to 29 September 2022, at the monthly rents of approximately HK\$87,000 and HK\$56,000, respectively, with an option to renew the tenancy for an additional three years at market rent upon expiry of the initial term.

The sale and leaseback transaction was intended to mitigate the risk on the potential fall in property prices of the Group’s self-owned properties and raise capital for the Group’s daily operation and business development.

During the year end 31 December 2019, upon the completion of the above sale and leaseback transaction, the Group recognised right-of-use assets of HK\$7,531,000, lease liabilities of HK\$9,658,000 and a gain arising from sale and leaseback transaction of HK\$976,000, and released the respective asset revaluation reserve of HK\$40,804,000 to the accumulated losses.

11. TRADE RECEIVABLES

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|-------------------------|-------------------------|-------------------------|
| Trade receivables from: | | |
| Third party customers | 16,870 | 16,159 |
| Related companies | 112 | 3,747 |
| | <u>16,982</u> | <u>19,906</u> |
| Impairment | (253) | (56) |
| | <u>16,729</u> | <u>19,850</u> |

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to two months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| Within 1 month | 10,366 | 12,658 |
| 1 to 2 months | 5,317 | 6,812 |
| 2 to 3 months | 914 | 380 |
| More than 3 months | 132 | – |
| | <u>16,729</u> | <u>19,850</u> |

12. TRADE PAYABLES

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|-----------------------|-------------------------|-------------------------|
| Trade payables to: | | |
| Third party suppliers | 5,303 | 5,577 |
| Related companies | 308 | 528 |
| | <u>5,611</u> | <u>6,105</u> |

An ageing analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 1 month | 5,568 | 6,105 |
| 1 to 2 months | 43 | – |
| | <u>5,611</u> | <u>6,105</u> |

The trade payables are non-interest-bearing and are normally settled on 30 to 60 days terms.

13. INTEREST-BEARING BANK BORROWINGS

| | 2019 | | | 2018 | | |
|--------------------------------|--|-----------|----------------------|-------------------------------------|-----------|-------------------------|
| | Effective interest rate (%) | Maturity | <i>HK\$'000</i> | Effective interest rate (%) | Maturity | <i>HK\$'000</i> |
| Current | | | | | | |
| Bank overdrafts — unsecured | 10 above prime rate | On demand | 68 | – | – | – |
| Bank loans — secured | 2.75 to 3.00 below prime rate | 2020 | 2,404 | 2.75 to 3.00 below prime rate | 2019 | 2,337 |
| | | | 2,472 | | | 2,337 |
| Non-current | | | | | | |
| Bank loans — secured | 2.75 to 3.00 below prime rate | 2021–2035 | 22,617 | 2.75 to 3.00 below prime rate | 2020–2035 | 25,023 |
| | | | 25,089 | | | 27,360 |
| | | | <u>25,089</u> | | | <u>27,360</u> |
| | | | | 2019 <i>HK\$'000</i> | | 2018 <i>HK\$'000</i> |

Analysed into:

Bank loans and overdrafts repayable:

| | | |
|---|----------------------|----------------------|
| Within one year or on demand | 2,472 | 2,337 |
| In the second year | 2,462 | 2,394 |
| In the third and fifth years, inclusive | 7,561 | 7,539 |
| Over five years | 12,594 | 15,090 |
| | <u>25,089</u> | <u>27,360</u> |

The Group's bank loans are denominated in Hong Kong Dollars and are secured by the mortgages over the Group's land and buildings, which had an aggregate carrying value of HK\$59,000,000 (2018: HK\$103,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Winning Tower Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is principally engaged in processing and trading of raw, frozen and cooked food products, provision of transportation services and the operation of a restaurant in Hong Kong.

On 30 June 2017 (the “**Listing Date**”), the Company was successfully listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). 350,000,000 shares (or 25% of the total issued shares) were allotted and sold to the public at HK\$0.2 per share and a total of approximately HK\$39.9 million was successfully raised.

On 24 May 2019, Winning Tower Group Limited (“**Winning Tower Group**”), an indirect wholly-owned subsidiary of the Company, entered into a joint venture agreement with Wing Si Worldwide Holdings Limited (“**Wing Si**”) pursuant to which Winning Tower Group is interested as to 55% and Wing Si is interested as to 45% of the joint venture, which is the vehicle for their participation in catering and food business in Hong Kong. For details, please refer to the announcement of the Company dated 24 May 2019.

The Group will continue to develop by maintaining its customer base while exploring any new business opportunities and expanding its business capacity by increasing its refrigeration capacity.

USE OF PROCEEDS

From the Listing Date to 31 December 2019 (the “**Review Period**”), the net proceeds raised from listing as disclosed in the prospectus of the Company dated 19 June 2017 (the “**Prospectus**”) have been applied as follows:

| | Planned use of proceeds as stated in the Prospectus (HK\$ million) | Actual use of proceeds during the Review Period (HK\$ million) |
|--|---|---|
| Acquisition of new factory premises | 22.0 | 22.0 |
| Renovation of new premises as refrigeration facility | 8.8 | 8.8 |
| Strengthening Group’s logistics team | 2.4 | 2.4 |
| Setting up human resources department | 0.9 | 0.4 |
| Upgrade of internal management system | 0.7 | 0.4 |
| Working capital and other corporate development | 5.1 | 5.1 |
| | <u>39.9</u> | <u>39.1</u> |

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is the comparison of the business objectives as stated in the Prospectus and the actual objectives achieved during the Review Period:

| | Planned Business objective | Actual Business progress |
|---|--|---|
| To continue to maintain the relations of the existing customers | To offer more tailor-made products and services To broaden our customer base into more restaurants and hotels | Commenced research and development discussion on new products with potential and existing customers |
| To expand processing capacity | To acquire a new factory premises and renovate it as a refrigeration facility | Acquired two premises and renovation completed |
| To strengthen logistics team | To acquire three more vehicles equipped with refrigeration facilities before the end of 2018 | Acquired three vehicles equipped with refrigeration facilities |
| To enhance internal support | To hire two new staff and set up and oversee human resources department | An administrative assistant was hired to handle administration works. In the process of interviewing candidates for the human resource manager |

RESULTS AND FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded approximately HK\$135 million revenue as compared with last year's corresponding period of approximately HK\$136 million, representing a decrease of approximately 0.7%, which was mainly due to the decrease in sales of cooked food products and a change of customers' preference as a result of the outbreak of swine flu in China, leading to a change of products mix from pork to chicken where the selling price per kilogram of our chicken products are lower than pork products.

Cost of inventories consumed and loss before tax

For the year ended 31 December 2019, the Group's cost of inventories consumed and loss before tax from operations was approximately HK\$90.8 million and HK\$8.4 million respectively, while the cost of inventories consumed and profit before tax from operation in last year's corresponding period was approximately HK\$88.5 million and approximately HK\$5.3 million respectively. The increase in cost of inventories consumed was due to a change of customers' preference as a result of the outbreak of swine flu in China, leading to a change of product mix from pork to chicken, lowering the gross profit margin.

Employee benefit expenses

For the year ended 31 December 2019, the Group's employee benefit expenses increased to approximately HK\$21.3 million from last year's corresponding period's approximately HK\$21.2 million which was attributable to increase in wages.

Income tax expense

For the year ended 31 December 2019, the Group's income tax expense was approximately HK\$0.2 million which was lower than last year's corresponding period's approximately HK\$1.2 million. The decrease in tax expense was due to the decrease in taxable profit.

Loss for the year

Based on the above reasons, for the year ended 31 December 2019, the Group recorded a net loss for the period of approximately HK\$9.3 million versus a net profit of approximately HK\$3.6 million of last year's corresponding period.

FINANCIAL KEY PERFORMANCE

The above financial data were chosen to present in this annual report as they represent a material financial impact on the financial statements of the Group for the current and/or the previous financial year, with that a change of which could affect the revenue and profit conspicuously. It is believed that by presenting the changes of these financial data can effectively explain the financial performance of the Group for the year ended 31 December 2019.

Liquidity and financial resources

As at 31 December 2019, the Group had net current assets of approximately HK\$75.1 million (2018: HK\$37.8 million), of which cash at bank consisted of approximately HK\$65.3 million (2018: approximately HK\$21.7 million). The Group had bank borrowings amounted to approximately HK\$25.1 million (2018: approximately HK\$27.4 million).

Gearing ratio

As at 31 December 2019, the Group's gearing ratio was approximately 0.18 (2018: 0.19), which is calculated based on the Group's bank loans of approximately HK\$25.1 million (2018: HK\$27.4 million) and the Group's total equity of approximately HK\$141.7 million (2018: HK\$143.1 million).

Capital structure

As at 31 December 2019, the Company had 1,400,000,000 issued shares at HK\$0.01 each. There has been no change in the Company's capital structure during the financial year under review.

Treasury policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintains sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group.

Charge of assets

As at 31 December 2019, the Group's leasehold land and buildings held for own use with a net carrying amount of approximately HK\$59.0 million (2018: HK\$103.0 million) have been pledged to secure banking facilities granted to the Group.

Currency risk

As at 31 December 2019, the Group did not have material currency risk exposures as most of the Group's transactions carried out are denominated in Hong Kong Dollars and US Dollars which either Hong Kong Dollars are pegged with or has been maintaining a stable currency rate for a long time.

Capital commitments

As at 31 December 2019, the Group did not have any material capital commitments (31 December 2018: nil).

Contingent liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities (31 December 2018: nil).

Event after report date

There were no significant events occurring after the year ended 31 December 2019.

Material acquisitions and disposals of subsidiaries and affiliated companies

As at 31 December 2019, the Group did not have material acquisitions and disposals of subsidiaries and affiliated companies.

Major and connected transactions

On 2 July 2019, Winning Tower Group Limited (“**Winning Tower Group**”), an indirect wholly owned subsidiary of the Company, entered into property disposal agreements (the “**Property Disposal Agreements**”) with Iao Ip Property Investment Limited (“**Iao Ip**”), pursuant to which Iao Ip Property had conditionally agreed to acquire and Winning Tower Group had conditionally agreed to sell two properties, namely, Unit 803 and 808, 8/F, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the “**Properties**”) while the consideration about the sale and purchase of the Properties at the aggregated consideration of HK\$45,516,400. Of which, the consideration of Unit 803 and 808 was HK\$27,645,000 and HK\$17,871,400 respectively. Pursuant to the Property Disposal Agreements, Iao Ip Property and Winning Tower Group shall enter into the respective leasing agreements (the “**Leasing Agreements**”) where Iao Ip Property as landlord should lease to Winning Tower Group as tenant the Properties for a term of three years commencing from the date which all the conditions precedent were fulfilled according to the Property Disposal Agreements. According to the Leasing Agreements, the rent for Unit 803 and 808 was HK\$87,300 and HK\$56,436 per month respectively, totalling HK\$143,736 per month, inclusive of property tax, management fee, government rent and rates but exclusive of water, gas and electricity charges.

Iao Ip Property was owned as to 20% by Mr. Yu Ting Hei, a non-executive Director (“**Mr. Yu**”) and as to 80% in aggregate by three associates of Mr. Yu. Mr. Yu is a non-executive Director and one of the controlling shareholders of the Company. As such, Iao Ip Property is an associate of Mr. Yu and hence a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Accordingly, the Disposal also constituted a connected transaction of the Company, and was subject to announcement, reporting, circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

As a result, an extraordinary general meeting was convened and held on 9 September 2019 (the “**EGM**”) at which Keyview Ventures Limited, the Company’s controlling shareholder, was required to abstain from voting. At the EGM, the resolution was passed by the independent shareholder and the transactions were completed on 30 September 2019.

The proceeds arisen from the disposal of the Properties were approximately HK\$45.5 million which were intended to repay certain bank facilities.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2019, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

AUDIT COMMITTEE

The Company has established an audit committee on 5 June 2017 with written terms of reference in compliance with the GEM Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Lo Sun Tong (chairperson), Mr. Chau Chun Wai and Mr. Lam Lai Kiu Kelvin.

The primary duties of the audit committee are (but without limitation) to assist the Board in providing an independent view of the effectiveness of the Company's financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The audit committee has reviewed this annual report and was in the opinion that such report has complied with the applicable accounting standards and adequate disclosures have been made.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 of the GEM Listing Rules.

The Board recognizes the value and importance of achieving high corporate governance standards and is committed to upholding good corporate standards and procedures for the best interest of the Company's shareholders. The Company was listed on 30 June 2017. To the best knowledge of the Directors, the Company had complied with the code provisions in the CG Code throughout the year ended 31 December 2019 except for the following relation:

COMPANY SECRETARY

The Board had appointed Mr. Tsang Hing Bun ("**Mr. Tsang**") as the company secretary (the "**Company Secretary**") and an authorized representative of the Company on 5 June 2017. From 1 August 2018, Mr. Tsang ceased to be an employee of the Company as required under code provision F.1.1 of the CG Code, the Company has assigned Mr. Lai Ho Yin Eldon, the executive Director, as the contact person with Mr. Tsang. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Tsang through the contact person assigned. Hence, all Directors are still considered to have access to the advice and services of the Company Secretary in light of the above arrangement in accordance with code provision F.1.4 of the CG Code. Having in place a mechanism that Mr. Tsang will be informed of the Group's development promptly

without material delay and with his expertise and experience, the Board is confident that having Mr. Tsang as the Company Secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations. For the year ended 31 December 2019, Mr. Tsang has duly complied with the relevant professional training requirement under Rule 5.15 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. To ensure a balance of power and authority, the Company fully supports the division of responsibility between the chairman and the chief executive officer. The roles of the chairman and the chief executive officer are segregated and performed by Mr. Lai King Wah and Mr. Lai Ho Yin Eldon respectively.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period from the day of listing to 31 December 2019.

REVIEW OF ANNUAL RESULTS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company'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 the Company's auditor on the preliminary announcement.

By order of the Board
Winning Tower Group Holdings Limited
Lai King Wah
Chairman and Executive Director

Hong Kong, 23 March 2020

As at the date of this announcement, the executive directors are Mr. Lai King Wah, Mr. Lai Ho Yin Eldon and Mr. Ho Timothy Kin Wah; the non-executive directors are Mr. Yu Ting Hei, Mr. Chow Kuen Chung and Ms. Ou Honglian; and the independent non-executive directors are Mr. Chau Chun Wai, Mr. Lo Sun Tong and Mr. Lam Lai Kiu Kelvin.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the ‘‘Latest Company Announcements’’ page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.wtgl.hk.