Fulum Group Holdings Limited
富臨集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1443)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

HIGHLIGHTS

- Revenue was approximately HK$1,172.7 million (2020: approximately HK$1,853.9 million), representing a decrease of approximately 36.7%

- Gross profit margin[1] was at approximately 67.1% (2020: approximately 65.3%), representing an increase of approximately 1.8 percentage point

- Loss before interest expense, tax, depreciation and amortisation was approximately HK$184.9 million (2020: HK$266.7 million)

- Loss for the year attributable to owners of the Company was approximately HK$168.3 million (2020: approximately HK$637.5 million)

- Basic loss per share[2] was approximately HK12.95 cents (2020: basic loss per share of approximately HK49.04 cents)

- The guest count was approximately 11.6 million (2020: approximately 18.0 million), representing a decrease of approximately 35.6%

- The Board does not recommend the payment of any dividend for the year ended 31 March 2021 (2020: Nil)

1 *Gross profit equals revenue minus cost of inventories sold. Gross profit margin is calculated by dividing gross profit by revenue and multiplying the resulting value by 100%.*

2 *The calculation of the basic loss per share amounts is based on loss for the year attributable to ordinary equity holders of the Company of HK$168,305,000 (2020: HK$637,476,000) and 1,300,000,000 (2020: 1,300,000,000) ordinary shares in issue during the year.*

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Fulum Group Holdings Limited (the "**Company**", together with its subsidiaries collectively, the "**Group**"), hereby announces the consolidated results of the Group for the year ended 31 March 2021, together with comparative figures for the year ended 31 March 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2021

	Notes	**2021** *HK$'000*	2020 *HK$'000*
REVENUE	*5*	**1,172,682**	1,853,918
Other income and gains, net	*5*	**170,527**	36,121
Cost of inventories sold		**(385,932)**	(642,780)
Staff costs		**(388,778)**	(683,798)
Property rentals and related expenses		**(68,959)**	(188,374)
Depreciation of right-of-use assets		**(265,659)**	(245,363)
Depreciation of property, plant and equipment		**(61,234)**	(79,630)
Fuel and utility expenses		**(85,825)**	(121,430)
Other expenses		**(172,293)**	(250,248)
Losses from impairment/write-off of non-financial assets		**(52,254)**	(241,592)
Losses from impairment/write-off of financial assets		**(4,222)**	(28,562)
Finance costs	*6*	**(26,071)**	(25,344)
LOSS BEFORE TAX	*7*	**(168,018)**	(617,082)
Income tax expense	*8*	**(287)**	(20,021)
LOSS FOR THE YEAR		**(168,305)**	(637,103)
Attributable to:			
Owners of the Company		**(168,305)**	(637,476)
Non-controlling interests		**–**	373
		(168,305)	(637,103)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic	*10*	**HK(12.95) cents**	HK(49.04) cents
– Diluted	*10*	**HK(12.95) cents**	HK(49.04) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2021

	2021	2020
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(168,305)**	(637,103)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	**3,390**	(3,031)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**3,390**	(3,031)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(164,915)**	(640,134)
Attributable to:		
Owners of the Company	**(164,915)**	(640,507)
Non-controlling interests	**–**	373
	(164,915)	(640,134)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**169,988**	122,020
Investment properties	*11*	**–**	189,600
Right-of-use assets		**601,877**	290,334
Deposits and other receivables		**54,726**	69,672
Total non-current assets		**826,591**	671,626
CURRENT ASSETS			
Inventories	*12*	**93,382**	85,067
Trade receivables	*13*	**9,708**	8,928
Prepayments, deposits and other receivables		**119,138**	110,066
Financial assets at fair value through profit or loss		**–**	10,767
Tax recoverable		**12,194**	8,491
Cash and cash equivalents		**145,074**	116,412
Total current assets		**379,496**	339,731
CURRENT LIABILITIES			
Trade payables	*14*	**51,711**	36,996
Other payables, accruals and deferred income		**172,827**	78,921
Interest-bearing bank borrowings		**177,758**	94,594
Lease liabilities		**320,320**	260,710
Provision		**12,205**	6,760
Tax payable		**1,780**	5,517
Total current liabilities		**736,601**	483,498
NET CURRENT LIABILITIES		**(357,105)**	(143,767)
TOTAL ASSETS LESS CURRENT LIABILITIES		**469,486**	527,859

	2021	2020
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Accruals and deferred income	**11,981**	3,522
Lease liabilities	**326,153**	223,781
Provision	**8,803**	12,918
Deferred tax liabilities	**570**	744
Total non-current liabilities	**347,507**	240,965
Net assets	**121,979**	286,894
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**1,300**	1,300
Reserves	**120,679**	285,594
Total equity	**121,979**	286,894

NOTES

1. CORPORATE AND GROUP INFORMATION

Fulum Group Holdings Limited is an exempted company with limited liability incorporated in the Cayman Islands on 24 February 2014. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at 26/F, Capital Tower, 38 Wai Yip Street, Kowloon Bay, Hong Kong.

The Company is an investment holding company and the Company's subsidiaries are principally engaged in restaurant operations in Hong Kong and the People's Republic of China (the "**PRC**" or "**Mainland China**"). The shares of the Company (the "**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 November 2014.

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 (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value. The financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

The Group incurred a net loss of HK$168,305,000 for the year ended 31 March 2021. As at 31 March 2021, the Group's current liabilities exceeded its current assets by HK$357,105,000.

As at 31 March 2021, the Group did not fulfill one of the financial covenants as required in the banking facilities agreement. Consequently, the related outstanding interest-bearing borrowings of HK$84,676,000 (the "**Outstanding Borrowings**") became repayable on demand. As at the date of this announcement, the bank has not requested the Group's repayment of the Outstanding Borrowings.

In addition, as at 31 March 2021, lease liabilities which were past due amounted to approximately HK$80 million.

All of the above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented, or is in the process of implementing, the following key plans and measures:

(i) Subsequent to 31 March 2021 and up to the date of this announcement, the Group has obtained new bank loans of approximately HK$25 million during May and June 2021, which are repayable after one year from the drawdown date;

(ii) The Group is actively negotiating with the existing lender of the Outstanding Borrowings to obtain a waiver in respect of the non-fulfillment of the financial covenant and/or to seek for the extension of repayment terms of bank borrowings and to obtain new credit facilities;

(iii) The Outstanding Borrowings are secured by the Group's properties including the office premises and two car parking spaces, which have a market value of approximately HK$176.8 million as at 31 March 2021 as determined by an independent valuer. Subsequent to 31 March 2021, on 29 June 2021, the Group has entered into a memorandum of understanding with Mr. Yeung Wai, the substantial shareholder of the Company, and pursuant to which Mr. Yeung Wai will purchase the Group's properties at a consideration that is not lower than the prevailing market price. Upon the completion of the aforementioned transaction, Mr. Yeung Wai will lease back the properties to the Group on normal commercial terms or better.

    Part of the proceeds arising from the aforementioned transaction will be used for the settlement of the Outstanding Borrowings.

    As at the date of this announcement, the Group and Mr. Yeung Wai have not yet confirmed the details (such as the amount of consideration, date of transaction, etc.) of the above proposed transaction;

(iv) Mr. Yeung Wai has undertaken to provide additional funding to finance the Group's operations as and when necessary;

(v) Management is reviewing the business operations for various new initiatives to improve the Group's profitability, and has taken measures including closing down under-performing restaurants and implementing various cost control measures, in order to better control the costs of operations;

(vi) Management is negotiating with the landlords of the Group's leased properties for rent concessions in view of the adverse impact of the outbreak of COVID-19 on the Group's operations; and

(vii) Management will consider other financing arrangements with a view to improving the Group's liquidity and financial position.

The Directors including the members of the audit committee, have reviewed the Group's cash flow forecast prepared by management. The cash flow forecast covers a period of 12 months from the end of the reporting period. The directors of the Company are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within the next 12 months from the end of the reporting period. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements of the Group for the year ended 31 March 2021 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to continue as a going concern, which will depend upon the Group's ability to generate adequate financial and operating cash flows through the following:

(i) successfully negotiating with the Group's existing lender such that no action will be taken by the lender to demand repayment arising from the breach in respect of the Outstanding Borrowings with principal and interest in default;

(ii) successfully completing the proposed disposals of the Group's properties to its substantial shareholder as mentioned above;

(iii) successfully carrying out the Group's business plan to improve the profitability and cost control measures so as to improve the Group's working capital and cashflow position;

(iv) successfully negotiating with the landlords of the Group's leased properties for rent concessions in view of the adverse impact of the outbreak of COVID-19 on the Group's operations; and

(v) successfully obtaining other financial resources, including but not limited to additional funding from its substantial shareholder so as to enable the Group to have sufficient working capital to finance its operations and be able to meet its financial obligations as and when they fall due for at least the next 12 months from the end of the reporting period.

Should the going concern assumptions be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 April 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in restaurant operations in Hong Kong and Mainland China. Information reported to the Group's management for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Information about geographical areas

The following tables present revenue from external customers for the years ended 31 March 2021 and 2020, and certain non-current asset information as at 31 March 2021 and 2020, by geographical areas.

(a) *Revenue from external customers*

	2021	2020
	HK$'000	*HK$'000*
Hong Kong	**1,060,523**	1,744,673
Mainland China	**112,159**	109,245
	1,172,682	1,853,918

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	2021	2020
	HK$'000	*HK$'000*
Hong Kong	**708,014**	533,101
Mainland China	**64,198**	68,892
	772,212	601,993

The non-current asset information above is based on the locations of the assets and excludes financial assets and deferred tax assets.

Information about major customers

Since no revenue derived from sales to a single customer of the Group has individually accounted for over 10% of the Group's total revenue during the year, no information about major customers in accordance with HKFRS 8 *Operating Segments* is presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2021	2020
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Restaurant operations	**1,099,974**	1,790,732
Sale of food and other operating items	**72,708**	63,186
Total revenue from contracts with customers and recognised at a point in time	**1,172,682**	1,853,918

Other income and gains, net

An analysis of other income and gains, net is as follows:

	2021	2020
	HK$'000	*HK$'000*
Interest income	**290**	4,673
Licensing income	**935**	1,227
Food court income	**6,430**	7,207
Sponsorship income	**3,502**	7,774
Government subsidies*	**128,027**	4,240
Rent concession related to COVID-19#	**23,303**	2,519
Gain on lease termination	**3,395**	–
Overprovision of reinstatement liabilities	**1,623**	3,494
Others	**3,022**	4,987
	170,527	36,121

* *Government subsidies of HK$128,027,000 (2020: HK$4,240,000) were granted during the year ended 31 March 2021 by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies. There is no assurance that the Group will continue to receive such subsidies in the future.*

The Group has applied the practical expedient not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2021	2020
	HK$'000	*HK$'000*
Interest on bank overdrafts and bank loans	**4,081**	2,942
Interest on lease liabilities	**21,990**	22,402
	26,071	25,344

7. LOSS BEFORE TAX

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

	Note	2021 HK$'000	2020 HK$'000
Lease payments not included in the measurement of lease liabilities		**11,355**	123,250
Employee benefit expenses (including directors' remunerations):			
Salaries, bonuses and other allowances		**375,039**	658,771
Retirement benefit scheme contributions (defined contribution schemes)^		**13,739**	25,027
		388,778	683,798
Fair value losses on investment properties*		**12,850**	18,051
Loss on disposal of items of property, plant and equipment, net*		**–**	769
Impairment of items of property, plant and equipment**		**15,617**	53,745
Write-off of items of property, plant and equipment**		**1,992**	9,793
Impairment of right-of-use assets**		**30,032**	105,110
Write-off of right-of-use assets**		**4,613**	–
Impairment of deposits**		**–**	1,237
Impairment of goodwill**		**–**	58,707
Impairment of intangible assets**		**–**	13,000
Impairment of trade receivables***	*13*	**–**	13,573
Impairment of other receivables***		**–**	6,600
Write-off of other receivables***		**4,222**	8,389
Loss/(gain) on disposal of subsidiaries*		**(5,795)**	917
Foreign exchange differences, net		**(11)**	19
Fair value losses/(gain), net:			
Financial assets at fair value through profit or loss*		**(11,386)**	8,233
Other receivables*		**–**	5,357

^ *At 31 March 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2020: Nil).*

* *These items were included in "Other expenses" in the consolidated statement of profit or loss.*

** *These items were included in "Losses from impairment/write-off of non-financial assets" in the consolidated statement of profit or loss.*

*** *These items were included in "Losses from impairment/write-off of financial assets" in the consolidated statement of profit or loss.*

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 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. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

Taxes on profits assessable in Mainland China have been calculated at the rate of 25% (2020: 25%) during the year.

	2021	2020
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**–**	797
Underprovision/(overprovision) in prior years	**(279)**	619
Current – Mainland China		
Charge for the year	**566**	104
Deferred	**–**	18,501
Total tax charge for the year	**287**	20,021

9. DIVIDENDS

	2021	2020
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Final 2020 – Nil (2020: Final 2019 – HK0.79 cent) per ordinary share	**–**	10,270

10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on loss for the year attributable to ordinary equity holders of the Company of HK$168,305,000 (2020: HK$637,476,000) and 1,300,000,000 (2020: 1,300,000,000) ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 March 2021.

No adjustment had been made to the basic loss per share amounts presented for the year ended 31 March 2020 in respect of a dilution as impact of the share options outstanding had no dilutive effect on the basic loss per share amounts presented for the year ended 31 March 2020.

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the year, the Group acquired items of property, plant and equipment amounting to approximately HK$86,753,000 (2020: approximately HK$67,948,000).

At 31 March 2021, the Group's land and building with a carrying amount of HK$176,087,000 (2020: investment properties of HK$189,600,000) were pledged to secure general banking facilities granted to the Group.

12. INVENTORIES

	2021	2020
	HK$'000	*HK$'000*
Food and beverages	**87,690**	80,047
Other operating items for restaurant operations	**5,692**	5,020
	93,382	85,067

13. TRADE RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Credit card receivables	**2,134**	871
Others	**19,451**	19,934
	21,585	20,805
Impairment	**(11,877)**	(11,877)
	9,708	8,928

The Group's trading terms with its customers are mainly on cash and credit card settlement while trading terms for sale of food are on credit with credit periods ranging from 30 to 60 days (2020: 30 to 60 days). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement 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:

	2021	2020
	HK$'000	*HK$'000*
Within 1 month	**6,554**	5,706
1 to 3 months	**1,531**	1,092
3 to 12 months	**1,623**	1,586
Over 12 months	**–**	544
	9,708	8,928

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021	2020
	HK$'000	*HK$'000*
At beginning of year	**11,877**	4,948
Impairment losses (note 7)	**–**	13,573
Amount written off as uncollectible	**–**	(6,644)
At end of year	**11,877**	11,877

14. TRADE PAYABLES

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

	2021	2020
	HK$'000	*HK$'000*
Within 1 month	**41,225**	22,692
1 to 3 months	**7,059**	11,095
3 to 12 months	**1,190**	1,508
Over 12 months	**2,237**	1,701
	51,711	36,996

The trade payables are non-interest-bearing and generally have payment terms of 45 to 90 days.

15. CONTINGENT LIABILITIES

At the end of each of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2021	2020
	HK$'000	*HK$'000*
Bank guarantees given in lieu of rental and utility deposits	**29,088**	38,685

16. OPERATING LEASE ARRANGEMENTS

As lessee

As at 31 March 2021, the Group leases certain of its advertisement boxes under operating lease arrangements. Leases for these low-value assets are negotiated for terms ranging from one year to five years.

At 31 March 2021, the Group had total future lease payments under non-cancellable lease contracts (including leases of low-value assets and lease contracts that have not yet commenced as at 31 March 2021) as follows:

	2021	2020
	HK$'000	*HK$'000*
Within one year	**4,382**	10,121
In the second to fifth years, inclusive	**7,386**	49,626
Beyond five years	**–**	7,668
	11,768	67,415

In addition, the operating lease rentals for certain restaurants are based on the higher of a fixed rental and a contingent rent based on the sales of these restaurants pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these restaurants could not be reliably determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above table as at 31 March 2021.

17. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021	2020
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	**684**	1,902

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements and as to whether they have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in note 2.1 to the financial statements, the Group incurred a net loss of HK$168,305,000 for the year ended 31 March 2021. As at 31 March 2021, the Group's current liabilities exceeded its current assets by HK$357,105,000.

As at 31 March 2021, the Group did not fulfill one of the financial covenants as required in the banking facilities agreement. Consequently, the related outstanding interest-bearing bank borrowings of HK$84,676,000 (the "**Outstanding Borrowings**") became repayable on demand.

In addition, as at 31 March 2021, lease liabilities which were past due amounted to approximately HK$80 million.

These conditions, together with other matters disclosed in note 2.1 to the financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including:

(i) successfully negotiating with the Group's existing lender such that no action will be taken by the lender to demand repayment arising from the breach in respect of the Outstanding Borrowings with principal and interest in default;

(ii) successfully completing the proposed disposals of the Group's properties to its substantial shareholder as further disclosed in note 2.1 to the financial statements;

(iii) successfully carrying out the Group's business plan to improve the profitability and cost control measures so as to improve the Group's working capital and cashflow position;

(iv) successfully negotiating with the landlords of the Group's leased properties for rent concessions in view of the adverse impact of the outbreak of COVID-19 on the Group's operations; and

(v) successfully obtaining other financial resources, including but not limited to additional funding from its substantial shareholder so as to enable the Group to have sufficient working capital to finance its operations and be able to meet its financial obligations as and when they fall due for at least the next 12 months from the end of the reporting period.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

THE MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION

The Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented, or is in the process of implementing, the following key plans and measures:

(i) the Group is actively negotiating new sources of financing. Subsequent to 31 March 2021 and up to the date of this announcement, the Group had obtained new bank loans of approximately HK$25 million during May and June 2021, which are repayable after one year from the respective drawdown date;

(ii) the Group is actively negotiating with the existing lender of the Outstanding Borrowings to obtain a waiver in respect of the non-fulfillment of the financial covenant. Based on the discussion between the Group and the lender as at the date of this announcement, it is expected that such waiver will be obtained before the 2021 annual general meeting of the shareholders of the Company. The Group is also actively negotiating with the lender for the extension of repayment terms of bank borrowings and to obtain new credit facilities;

(iii) the Outstanding Borrowings are secured by the Group's properties, including the office premises and two car parking spaces (the "**Properties**"), which have a market value of approximately HK$176.8 million as at 31 March 2021 as determined by an independent valuer. Subsequent to 31 March 2021, on 29 June 2021, the Group has entered into a memorandum of understanding with Mr. Yeung Wai, a controlling shareholder of the Company, and pursuant to which Mr. Yeung Wai will purchase the Properties at a consideration that is not lower than the prevailing market price. Upon the completion of the aforementioned transaction, Mr. Yeung Wai will lease back the Properties to the Group on normal commercial terms or better. Part of the proceeds arising from the aforementioned transaction will be used for the settlement of the Outstanding Borrowings;

(iv) Mr. Yeung Wai has undertaken to provide additional funding to finance the Group's operations as and when necessary;

(v) the Group is reviewing the business operations for various new initiatives to improve the Group's profitability and has taken measures including closing down under-performing restaurants and implementing various cost control measures in order to better control its costs of operations;

(vi) the Group is negotiating with the landlords for rent concessions in view of the adverse impact of the outbreak of the COVID-19 pandemic on the Group's operations; and

(vii) the Group will continue to consider other financing arrangements with a view to improving its liquidity and financial position.

The Directors have reviewed the Group's cash flow forecast prepared by the Group's management covering a period of 12 months from 31 March 2021. The Directors are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within 12 months from 31 March 2021. Accordingly, the Directors are satisfied that it is appropriate to prepare these consolidated financial statements of the Group for the year ended 31 March 2021 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Group will be able to achieve the plans and measures as described above. The Company has considered the rationale of the auditor of the Company and understood its consideration in arriving the disclaimer of opinion.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The Company established the audit committee (the "**Audit Committee**") on 28 October 2014 with the revised written terms of reference adopted on 28 December 2018.

The Audit Committee has reviewed the Group's consolidated financial statements and annual results for the year ended 31 March 2021. They expressed no disagreement with the accounting policies and principles adopted by the Group. The Audit Committee had reviewed the basis for disclaimer of opinion, the Company's view concerning the basis for disclaimer of opinion and measures taken by the Company in addressing the basis for disclaimer of opinion. The Audit Committee agreed with the Company's view. Moreover, the Audit Committee requested the Company to take all necessary actions to address the effect on the basis for disclaimer of opinion to procure no such disclaimer of opinion to be made in the next financial year. The Audit Committee had also discussed with the auditor of the Company regarding the financial position of the Group, and the measures taken and to be taken by the Company. The Audit Committee has considered the rationale of the auditor of the Company and understood its consideration in arriving the disclaimer of opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Since the outbreak of the novel coronavirus (COVID-19) pandemic in late 2019 and its global spread, this once-in-a-century pandemic has lasted for more than a year and resulted in the severe contraction in global economic activities. In order to effectively control the pandemic, the Hong Kong Government has established a series of containment measures requiring operators of catering business and persons responsible for the management of the relevant premises to strictly implement the relevant social distancing measures, such as limiting the number of customers at the same table and the ratio of the number of customers to the seating capacity, shortening business hours, etc. These measures had affected the business of the catering industry.

Despite the impact of the pandemic, the latest information released by the Census and Statistics Department of Hong Kong revealed that gross domestic product (GDP) of Hong Kong for the first quarter of 2021 had increased by approximately 7.8% in real terms as compared with the corresponding period in 2020 and there is also a significant quarter-on-quarter increase of approximately 5.3% after seasonal adjustment. Over the same period, the value of total receipts of the restaurant sector was provisionally estimated at HK$19.7 billion, representing a decrease of approximately 8.8% as compared with the corresponding period for 2020 and a quarter-on-quarter decrease of approximately 2.1% after seasonal adjustments; among which the value of total receipts of Chinese restaurants had decreased by approximately 18.3%. The figures released by the government indicated that the Hong Kong economy rebounded significantly in the first quarter of 2021. With the gradual economic recovery and decreasing unemployment rate, the Group believes that the catering industry will get back on track.

For the PRC market, according to the "Report of Prospects and Investment Forecast Analysis on China Catering Industry" (《中國餐飲行業發展前景與投資預測分析報告》) released by Qianzhan Industry Research Institute (前瞻產業研究院), the catering industry in China is gradually becoming more diversified. In addition to formal meals, the public can enjoy fast food, local snacks, Western cuisines and delivery cuisines. However, formal meals continued to dominate the catering industry in the PRC. As reported in the distribution of the catering industry in China in 2019, formal meals accounted for approximately 42.4% of the catering industry. At the same time, with the improvement of the living standards and consumption power of the public, the development momentum of China's catering industry continues to be strong. Revenue of the catering industry in China is expected to maintain growth of between 8.0% and 9.0% from 2020 to 2026, and is expected to exceed RMB8 trillion by 2026. The Group believes that formal meals are still the mainstream consumption pattern of the public in China.

Business Review

During the year under review, the catering industry in Hong Kong was affected by the government's containment measures, which had led to a decrease in the number of customers. The Group has proactively adopted a brand strategy of full-time catering to cope with the challenges and extended its business coverage to different time slots throughout the day. From online to offline, the Group offers a variety of cuisines to various age groups. In terms of pandemic prevention and control measures, the Group actively follows the government's containment measures, strengthens the disinfection and cleaning of the restaurant environment and utensils, arranges regular testing for employees, and strives to protect the health of all employees and diners.

As of 31 March 2021, the Group owned a total of 82 restaurants, including 18 restaurants under the "Fulum (富臨)" main brand, 8 restaurants under the "Sportful Garden (陶源)" main brand and 52 restaurants under the "Fulum Concept (富臨概念)" main line in Hong Kong and 4 restaurants in the PRC. At the same time, the Group was operating a total of 7 supermarkets which mainly located in residential areas, providing customers with a variety of products, including high-quality ingredients such as frozen meat, fresh vegetables and fruits, prepared food and grains and oil.

During the year under review, the Group continued to focus on its core businesses under the "Fulum (富臨)" and "Sportful Garden (陶源)" main brands to provide traditional Cantonese cuisine to mass market customers and mid to high-end customers, respectively. The "Fulum (富臨)" main brand offers a wide variety of delicacies such as seafood, dim sum and hotpot, as well as luxurious venues and dining experience for wedding banquets and events for couples and customers; while the "Sportful Garden (陶源)" main brand uses premium food ingredients to prepare dishes, such as abalones, sea cucumbers, fresh seafood and bird's nests. Although the public has been affected by the prohibition of group gathering and reduced dining in restaurants during the pandemic, the Group actively launched various delivery promotion packages and online ordering services, so that our customers could maintain their usual catering habits at home.

On the other hand, in line with the Group's brand development strategy, the Group has been actively expanding its "Fulum Concept (富臨概念)" main line and supermarket business to cater for the diversified local catering needs and enhance customers' dining experience in different time slots. The Group operates different brands of restaurant to provide customers with different dining experiences, including popular Korean authentic dining and barbecue restaurants, comfortable casual cafes, restaurants specializing in high-quality Japanese Wagyu beef hotpots and the food hall brand "Foodeli". The Group has continued to explore various catering business opportunities and actively developed the "Fulum Concept (富臨概念)" main line to provide customers with supreme and unique dining experience on different local cuisines and broaden the customer base.

For the supermarket business, the Group has newly launched the supermarket business in response to the increasing demand for home cooking due to the pandemic. Leveraging on its years of experience in restaurant operation, the Group has extensive experience in sourcing different fresh and premium food ingredients around the world. For example, some frozen meats were purchased directly from suppliers and cut and packaged in the Group's own workshops, which effectively control the costs and provide better products to our customers at more affordable prices.

Prospects and Outlook

With the gradual relief of the pandemic and introduction of vaccines, the Group remains fully confident in the long-term prospects of the catering market in both Hong Kong and China, and believes that the public will be able to return to the pre-pandemic lifestyle in the near future. The Group will continue to adopt a prudent yet optimistic attitude to fine-tune its cuisine portfolio and brand structure, actively explore high-quality and distinctive ingredients and seek new cooperation modes in order to uphold the Group's spirit of "The Rationale of Three Excellents: Excellent Environment, Excellent Supply and Excellent Service". In the meantime, the Group will continue to strictly implement the containment measures and strengthen the disinfection and cleaning of its restaurants to fight against the pandemic together with the public.

Financial review

During the year under review, the Group's revenue decreased by approximately 36.7% to approximately HK$1,172.7 million (2020: approximately HK$1,853.9 million) from last year.

The following table sets forth the breakdown of the Group's revenue and percentage change by line of business for the financial years indicated:

	2021	2020	**% Change**
	HK$'000	*HK$'000*	
Restaurant operations			
"Fulum (富臨)" main brand	**564,467**	1,143,196	**(50.6)**
"Sportful Garden (陶源)" main brand	**112,723**	234,900	**(52.0)**
"Fulum Concept (富臨概念)" main line	**422,784**	412,636	**2.5**
Sale of food and other operating items	**72,708**	63,186	**15.1**

For the year under review, the Group's gross profit margin was approximately 67.1% (2020: approximately 65.3%). The loss attributable to owners of the Company decreased by approximately HK$469.2 million, from a loss of approximately HK$637.5 million for the year ended 31 March 2020 to a loss of approximately HK$168.3 million for the year ended 31 March 2021. The increase in gross profit margin of the Group for the year ended 31 March 2021 was mainly due to the Group's strategy to reallocation part of its resources from traditional Cantonese restaurants, which are of larger scale and involve higher costs, to modern restaurants under the "Fulum Concept (富臨概念)" main line in view of the industry outlook of the catering industry in Hong Kong and the containment measures imposed by the Hong Kong government in connection with the COVID-19 pandemic. Such strategy had resulted in a decrease in the total revenue of the Group while at the same time reduced the related cost and expenses.

Financial resources and liquidity

As at 31 March 2021, the Group's total assets increased to approximately HK$1,206.1 million (2020: approximately HK$1,011.4 million). As at 31 March 2021, the Group recorded a total equity of approximately HK$122.0 million (2020: approximately HK$286.9 million). The decrease in the total equity of the Group as at 31 March 2021 was mainly resulted from (i) the adoption of HKFRS 16 in respect of the leases of 35 premises renewed or entered into during the year under review resulting in an increase of the lease liabilities of the Group as at 31 March 2021; (ii) the impairment of the right-of-use assets in connection with certain leases of the Group; and (iii) the increase in bank borrowings of the Group.

As at 31 March 2021, the Group had approximately HK$145.1 million in cash and bank balances available (2020: approximately HK$116.4 million). The current ratio of the Group was approximately 0.5 (2020: approximately 0.7).

As at 31 March 2021, the Group's total borrowings amounted to approximately HK$177.8 million (2020: approximately HK$94.6 million), which mainly consisted of term loans in the amount of approximately HK$162.1 million (2020: approximately HK$94.6 million) and a revolving loan of approximately HK$15.7 million (2020: Nil). These borrowings were denominated in Hong Kong dollars and the effective interest rates ranged from approximately 1.59% to 2.75% per annum.

Capital expenditure

The capital expenditure during the year under review was primarily related to expenditures on additions and renovation of property, plant and equipment and investment property for the Group's central kitchen and logistics center, new restaurants and maintenance of existing restaurants. The capital commitments were related to leasehold improvements and equipment for our restaurants.

Contingent liabilities

As at 31 March 2021, the Group had contingent liabilities not provided for in the consolidated financial statements in the amount of approximately HK$29.1 million in relation to bank guarantees given in lieu of rental and utility deposits (2020: approximately HK$38.7 million).

Foreign currency exposure

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (to the extent that revenue or expenses are denominated in a currency that is different from the functional currency of the relevant subsidiaries of the Group). Majority of the Group's purchase during the year under review was denominated in the functional currency of the relevant subsidiaries.

The Group's assets, liabilities and transactions are mainly denominated in Hong Kong dollars. Certain of the Group's bank balances are denominated in Renminbi ("**RMB**") which is not freely convertible into other currencies. However, under Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements when appropriate.

Human resources and remuneration policy

As at 31 March 2021, the Group had approximately 2,165 employees. The Group believes that hiring, motivating and retaining qualified employees are crucial to the Group's success as a restaurant operator. During the year under review, the Group conducted a series of standardised training and advancement programs for all the Group's staff, from serving staff, cashiers, floor managers, chefs, restaurant managers to district managers. These training programs intend to ensure that all new staff are equipped with the skills required for their positions. The Group's internal advancement programs can provide its staff with clear advancement guidelines and promote employee satisfaction. The Group offers competitive remuneration packages to its employees, including basic salary, allowances, insurance and commission/bonuses.

Indebtedness and charges on Group's assets

As at 31 March 2021, certain assets of the Group with carrying amount in aggregate of HK$176.1 million (2020: HK$189.6 million) were pledged to secure its bank borrowings.

Material acquisition or disposal of subsidiaries or associated companies

During the year under review, there was no material acquisition or disposal of subsidiaries or associated companies of the Company.

Dividends

The Board does not recommend the payment of any dividend for the year ended 31 March 2021 (2020: Nil).

Share Option Schemes

The Company has adopted a post-IPO share option scheme (the "**Share Option Scheme**") on 28 October 2014, pursuant to which, the Directors may grant options to eligible participants to subscribe for Shares at a price determined by the Board provided that the exercise price shall not be less than whichever is the highest of (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange daily quotations sheet on the offer date; and (iii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the offer date. The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and conveyed by the Board to the grantee at the time an offer is made. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 13 November 2014.

As at the date of this announcement, no share option has been granted under the Share Option Scheme.

Corporate Governance Code

The Board periodically reviews the Group's corporate governance practices to ensure its continuous compliance with the code provisions of the corporate governance code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Throughout the year ended 31 March 2021, save for the deviation from code provision A.2.1 of the CG Code, the Board considered that the Company has complied with the code provisions set out in the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman (the "**Chairman**") and the chief executive officer (the "**CEO**") of the Company should be separate and should not be performed by the same individual. During the year under review, the Company did not have separate Chairman and CEO, with Mr. Yeung Wai performing both roles. As Mr. Yeung Wai has in-depth experience and knowledge of the Group and its businesses, the Board is of the view that his appointment for the dual roles as the Chairman and the CEO would enhance the efficiency in formulation and execution of corporate strategies of the Group. In order to further enhance the corporate governance of the Group, on 13 May 2021, the Company has appointed Mr. Wu Kam On Keith as the CEO while Mr. Yeung Wai has remained as the Chairman. Accordingly, the Company has complied with code provision A.2.1 of the CG Code since 13 May 2021.

The Board is committed to maintaining a high standard of corporate governance practices to safeguard the interests of the shareholders of the Company, and to enhance corporate value and accountability. These objectives can be achieved by an effective Board, segregation of duties with clear responsibility, sound internal controls, appropriate risk assessment procedures and transparency to all the Company's shareholders.

Model Code of Securities Transactions by Directors

The Company has adopted a code of conduct (the "**Code of Conduct**") regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Based on responses of specific enquiries made with the Directors, all of the Directors have confirmed that they have complied with required standards as set out in the Model Code and Code of Conduct throughout the year ended 31 March 2021 and up to the date of this announcement.

Purchases, sale or redemption of listed securities

During the year ended 31 March 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of the issued Shares (i.e. at least 25% of the issued Shares has been held in public hands) as required under the Listing Rules during the year ended 31 March 2021 and up to the date of this announcement.

Events after the year under review

The Board is not aware of any material event affecting the Group since the end of the reporting period and up to the date of this announcement.

Audit Committee

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and material advice in respect of financial reporting and to oversee the audit process, risk management system and internal control procedures of the Group.

The Audit Committee comprises all three independent non-executive Directors, namely, Mr. Ng Ngai Man Raymond, Mr. Wong Wai Leung Joseph and Mr. Chan Chun Bong Junbon with Mr. Wong Wai Leung Joseph being the chairman of the Audit Committee. The Audit Committee has reviewed the Group's consolidated statements for the year ended 31 March 2021. The Audit Committee was of the opinion that the preparation of such results complied with applicable accounting standards and requirements as well as the Listing Rules and relevant adequate disclosures have been made.

Scope of work of the Company's auditor in respect of this preliminary announcement

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 March 2021 as set out in this preliminary announcement have been agreed by the Company's auditor, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 March 2021. 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 HKICPA and consequently, no assurance has been expressed by the Company's auditor on this preliminary announcement.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 21 September 2021 to Tuesday, 28 September 2021, both days inclusive, during which period no transfer of Shares will be registered, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfers of Shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 20 September 2021.

Publication of annual results announcement and annual report

This annual results announcement is published on the Company's website (www.fulumgroup.com) and the Stock Exchange's website (www.hkexnews.hk). The annual report of the Company for the year ended 31 March 2021 containing all the information required under the Listing Rules will be despatched to the shareholders of the Company and will be made available on the websites of the Company and the Stock Exchange in due course.

By order of the Board
Fulum Group Holdings Limited
YEUNG WAI
Chairman and Executive Director

Hong Kong, 29 June 2021

As at the date of this announcement, the Board comprises Mr. Yeung Wai (Chairman), Mr. Wu Kam On Keith (Vice Chairman and CEO), Mr. Yeung Yun Chuen, Mr. Yeung Yun Kei, Mr. Leung Siu Sun and Mr. Yeung Ho Wang as executive Directors; and Mr. Ng Ngai Man Raymond, Mr. Wong Wai Leung Joseph and Mr. Chan Chun Bong Junbon as independent non-executive Directors.