LHGROUP
敘福樓集團

LH GROUP LIMITED
敘福樓集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1978)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	% Change
	HK$ million	*HK$ million*	
Revenue	**1,004.1**	829.2	21.1%
Earnings before interest, tax, depreciation and amortisation	**94.4**	75.7	24.7%
Profit attributable to the shareholders of the Company	**35.2**	22.4	57.1%
Profit attributable to the shareholders of the Company (excluded listing expenses	**43.2**	38.5	12.2%
Earnings per share Basic and diluted *(HK cents)*	**4.90**	3.73	31.4%

Final dividend in respect of the year ended 31 December 2018 of HK5.4 cents per share was proposed by the Board, which represented a dividend payout ratio of approximately 123%.

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of LH Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	4	**1,004,105**	829,152
Other income		**3,853**	2,577
Cost of food and beverages		**(287,937)**	(228,601)
Staff costs		**(303,899)**	(259,487)
Depreciation and amortisation		**(50,658)**	(43,513)
Property rentals and related expenses		**(181,510)**	(152,522)
Fuel and utility expenses		**(28,583)**	(24,576)
Advertising and marketing expenses		**(12,982)**	(9,616)
Other operating expenses		**(87,302)**	(65,234)
Provision for impairment of property, plant and equipment		**(4,157)**	—
Provision for impairment of financial assets		**(1,854)**	—
Listing expenses		**(8,027)**	(16,143)
Finance income	6	**2,686**	187
Profit before taxation	5	**43,735**	32,224
Income tax expense	7	**(8,575)**	(8,227)
Profit and total comprehensive income for the year		**35,160**	23,997
Attributable to:			
Shareholders of the Company		**35,211**	22,391
Non-controlling interests		**(51)**	1,606
		35,160	23,997
Earnings per share			
Basic and diluted	8	**HK4.90 cents**	HK3.73 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	**31 December 2018 HK$'000**	31 December 2017 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**130,567**	125,789
Investment property		**720**	745
Intangible assets		**7,227**	3,530
Rental and utilities deposits	10	**45,532**	57,800
Prepayments for purchase of property, plant and equipment	10	**1,414**	—
Deferred income tax assets		**17,192**	12,768
		202,652	200,632
CURRENT ASSETS			
Inventories		**26,144**	25,884
Trade receivables	10	**13,045**	12,682
Prepayments, deposits and other receivables	10	**38,733**	33,527
Tax recoverable		**2,894**	4,244
Short term bank deposits		**148,000**	—
Cash and cash equivalents		**142,289**	69,990
		371,105	146,327
Total assets		**573,757**	346,959
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	12	**80,000**	—
Share premium		**122,781**	—
Reserves		**207,716**	201,502
		410,497	201,502
Non-controlling interests		**49**	—
Total equity		**410,546**	201,502

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Note	**31 December 2018** ***HK$'000***	31 December 2017 *HK$'000*
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	11	**13,227**	14,825
Deferred income tax liabilities		**2,572**	2,141
		15,799	16,966
CURRENT LIABILITIES			
Trade payables	11	**42,327**	35,787
Contract liabilities, other payables and accruals	11	**98,048**	87,755
Tax payable		**7,037**	4,949
		147,412	128,491
Total liabilities		**163,211**	145,457
Total equity and liabilities		**573,757**	346,959

NOTES

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 June 2017 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands and its shares have been listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 30 May 2018 (the "**Listing Date**"). The address of the Company's registered office is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged as full-service restaurants operator serving Chinese and Asian cuisine including Japanese and Korean cuisine in Hong Kong.

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. These financial statements are presented in Hong Kong dollar ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

3. ACCOUNTING POLICIES

(a) New standards and amendments to standards adopted by the Group

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 January 2018:

HKAS 40 (Amendment)	Transfers of Investment Property
HKFRS 2 (Amendment)	Classification and Measurement of Share-Based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HK (IFRIC) Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements Project (Amendment)	Annual Improvements 2014 – 2016 Cycle

Saved as disclosed in Note 3(c), the adoption of these new and amended standards, improvements and interpretation did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

(b) New standards and amendments to HKFRS in issue but not yet effective

		Effective for annual periods beginning on or after
Annual improvements project	Annual improvement to HKFRSs 2015–2017 Cycle	1 January 2019
HKFRS 9	Prepayment features with negative compensation (amendments)	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2019
HKAS 19	Employee benefits (amendments)	1 January 2021
HKAS 28	Investments in associates and joint venture (amendments)	1 January 2019
HK (IFRIC) — Int 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture (amendments)	To be determined

The Group will adopt the new and amended standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new and amended standards and new interpretations, none of which is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16 “Leases”

Nature of change

HKFRS 16 was issued in May 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

As at the reporting date, the Group has non-cancellable operating lease commitments of HK$327,290,000. Of these commitments, approximately HK$22,630,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the group expects to recognise right-of-use assets and lease liabilities of approximately HK$280,000,000 on 1 January 2019. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The group’s activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2019 and that comparatives will not be restated.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies

The Group elects to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassification and the adjustments arising from the adoption of HKFRS 9 and HKFRS 15 are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening of the consolidated statement of financial position on 1 January 2018.

The following table show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by standard below.

Consolidated statement of financial position (extract)	**31 December 2017 As originally presented**	**HKFRS 15 reclassification**	**1 January 2018 Restated**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Contract liabilities, other payables and accruals			
— Advances from customers	14,802	(14,802)	—
— Deferred revenue	10,043	(10,043)	—
— Contract liabilities	—	24,845	24,845
— Others	62,910	—	62,910
	87,755	—	87,755

(i) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

(1) Classification and measurement of financial instruments on adoption of HKFRS 9

The financial assets currently held by the Group include financial instruments previously classified as loans and receivables which continue to be measured at amortised cost under HKFRS 9. Accordingly, there is no impact on the classification and measurement of its financial assets. There will be no impact on the Group's accounting for financial liabilities, as the HKFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

(2) Impairment of financial assets

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was immaterial.

(ii) HKFRS 15 Revenue from contracts with customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, comparative figures have not been restated. The adoption of HKFRS 15 did not result in significant changes to the Group recognition policies. The Group has voluntarily changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of HKFRS 15. As such, advances from customers and deferred revenue which were previously included in other payables and accruals, amounting to HK$24,845,000 as at 1 January 2018, are now recognised as contract liabilities (as included in other payables and accruals) to reflect the terminology of HKFRS 15.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue, which is also the Group's turnover, represents amounts received and receivable from the operation of restaurants and sales of food ingredients in Hong Kong, net of discount. An analysis of revenue is as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Recognised at a point in time:		
Restaurant operations	**987,989**	808,897
Sale of food ingredients	**16,116**	20,255
	1,004,105	829,152

(b) Segment information

The Directors, who are the chief operating decision-maker of the Group, have reviewed the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on reports reviewed by the Directors that are used to make strategic decisions.

The Group is principally engaged in the operation of restaurant chains and sales of food ingredients in Hong Kong. Management reviews the operating results of the business by major cuisine and sale of food ingredients which the Group operates to make decisions about resources to be allocated.

The Group has the following reporting segments:

(a)	Cantonese cuisine — self-owned brands	Operation of Cantonese restaurants under the self-established *"The Banqueting House"*, *"China Hall"*, *"Pot Master"* and *"LHGrand"* brands, offering Cantonese cuisine and wedding reception services
(b)	Asian cuisine — franchised brands	Operation of Asian cuisine restaurants under the franchised *"Gyu-Kaku"*, *"On-Yasai"*, *"Gyu-Kaku Jinan-Bou"* and *"Yoogane"* brands
(c)	Asian cuisine — self-owned brands	Operation of Asian cuisine restaurants under self-owned brands, including *"Mou Mou Club"*, *"Hotpot PNP"*, *"Peace Cuisine"* and "*Goolo*"
(d)	Sale of food ingredients	Sale of food ingredients to related parties and external third parties

Segment revenue and segment profit were the measures reported to the Directors for the purpose of resources allocation and performance assessment. Segment profit, which is a measure of adjusted profit before tax, was measured consistently with the Group's profit before tax except that finance income and unallocated cost were excluded from this measurement.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade receivables, prepayments, deposits and other receivables. They exclude property, plant and equipment and prepayments, deposits and other receivables and cash and cash equivalents for general use, investment property, deferred income tax assets and tax recoverable.

Segment liabilities consist primarily of trade payables and other payables and accruals. They exclude other payables and accruals for general use, tax payables and deferred income tax liabilities.

The major operating entities of the Group were domiciled in Hong Kong. All revenue of the Group was derived in Hong Kong. As at 31 December 2018, all non-current assets of the Group were located in Hong Kong.

During the year, management realigned the Group's business strategy and has classified the *"Peace Cuisine"* brand from Cantonese cuisine — self-owned brands to Asian cuisine — self-owned brands and certain comparatives have been reclassified to conform with current year presentation.

An analysis of the Group's revenue, profit before taxation and depreciation and amortisation for the years ended 31 December 2018 and 2017 and segment assets and liabilities as at 31 December 2018 and 2017 is as follows:

	For the year ended 31 December 2018				
	Cantonese restaurants — self-owned brands	**Asian cuisine — franchised brands**	**Asian cuisine — self-owned brands**	**Sale of food ingredients**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Revenue	**273,624**	**474,329**	**240,036**	**158,664**	**1,146,653**
Inter-segment revenue	**—**	**—**	**—**	**(142,548)**	**(142,548)**
External revenue	**273,624**	**474,329**	**240,036**	**16,116**	**1,004,105**
Segment profit	**11,730**	**70,137**	**15,613**	**3,349**	**100,829**
Depreciation and amortisation	**(10,488)**	**(24,841)**	**(14,129)**	**—**	**(49,458)**
Segment profit					**100,829**
Unallocated depreciation and amortisation					**(1,200)**
Unallocated cost					**(58,580)**
Unallocated finance income					**2,686**
Profit before taxation					**43,735**
Segment assets	**67,309**	**115,695**	**66,204**	**35,131**	**284,339**
Segment liabilities	**(23,369)**	**(69,638)**	**(26,755)**	**(12,944)**	**(132,706)**

	For the year ended 31 December 2017				
	Cantonese restaurants — self-owned brands	Asian cuisine — franchised brands	Asian cuisine — self-owned brands	Sale of food ingredients	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Revenue	272,060	319,694	217,143	142,783	951,680
Inter-segment revenue	—	—	—	(122,528)	(122,528)
External revenue	272,060	319,694	217,143	20,255	829,152
Segment profit	15,401	41,960	29,185	3,178	89,724
Depreciation and amortisation	(9,575)	(17,648)	(12,359)	—	(39,582)
Segment profit					89,724
Unallocated depreciation and amortisation					(3,931)
Unallocated cost					(53,756)
Unallocated finance income					187
Profit before taxation					32,224
Segment assets	87,967	70,082	60,018	35,757	253,824
Segment liabilities	(37,922)	(38,542)	(19,453)	(12,569)	(108,486)

A reconciliation of segment assets to the Group's total assets is as follows:

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
Segment assets	**284,339**	253,824
Unallocated assets	**289,418**	93,135
	573,757	346,959

A reconciliation of segment liabilities to the Group's total liabilities is as follows:

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
Segment liabilities	**132,706**	108,486
Unallocated liabilities	**30,505**	36,971
	163,211	145,457

(c) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
Advances from customers	**9,266**	14,802
Deferred revenue	**16,645**	10,043
Total contract liabilities	**25,911**	24,845

Advances from customers represents the payments received from customers for reserving banqueting services. Deferred revenue represents the fair value of outstanding loyalty points, coupons and discount and expected renewal of membership in respect of customer loyalty programme as at year end.

The following table shows the revenue recognised related to carried forward contract liabilities.

	2018	2017
	HK$'000	*HK$'000*
Restaurant operations	**24,845**	27,843

Due to the short-term nature of our related revenue, all the contract liabilities balance at the year end would be recognised into revenue in the next financial year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the followings:

	2018	2017
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**50,385**	43,266
Depreciation of investment property	**25**	25
Amortisation of intangible assets	**248**	222
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	**129,706**	111,135
— Contingent rental	**10,935**	6,195
	140,641	117,330
Auditors' remuneration		
— Audit services	**2,347**	750
— Non-audit services	**550**	350
Gain on disposal of property, plant and equipment	**—**	(170)
Foreign exchange differences, net	**3**	89

6. FINANCE INCOME

	2018	2017
	HK$'000	*HK$'000*
Interest income from bank deposits	**2,686**	187

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided on the estimated assessable profits at a rate of 16.5% for the year ended 31 December 2018 (2017: 16.5%).

The major components of the income tax expense are as follows:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current income tax	**13,046**	11,248
Over provision in prior year	**(478)**	—
Deferred income tax	**(3,993)**	(3,021)
	8,575	8,227

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to shareholders of the Company *(HK$'000)*	**35,211**	22,391
Weighted average number of shares in issue	**718,356,164**	600,000,000
Basic earnings per share *(HK cents)*	**4.90**	3.73

The weighted average number of shares in issue for the years ended 31 December 2018 and 2017 for the purpose of earnings per share computation has been retrospectively adjusted for the effect of the 1 share issued on 9 June 2017 (the date of incorporation), 9 new shares from 1:10 subdivision on 22 August 2017 under the reorganisation in preparation for listing and the 599,999,990 shares issued under the capitalisation issue on 4 May 2018.

(b) Diluted

Diluted earnings per share are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

9. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends paid	**28,997**	35,247

Dividends paid during the years ended 31 December 2018 and 2017 represented dividends declared by the companies now comprising the Group to the then owners of the companies, after eliminating intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

A final dividend in respect of the year ended 31 December 2018 of HK5.4 cents per ordinary share, totalling HK$43,200,000, was proposed by the Board on 27 March 2019 which is subject to the approval of shareholders at the forthcoming annual general meeting. The proposed dividend is not reflected as dividend payable in the consolidated statement of financial position.

10. TRADE AND OTHER RECEIVABLES

Trade receivables

The Group's trade receivables are denominated in HK$. The carrying value of trade receivables approximate their fair values due to their short-term maturities.

An ageing analysis of the trade receivables as at 31 December 2018, based on the invoice date, is as follows:

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
Within 30 days	**11,904**	8,882
31–60 days	**34**	1,856
61–180 days	**1,107**	1,944
	13,045	12,682

Trade receivables mainly represent receivables from financial institutions in relation to the payment settled by credit cards by customers of which the settlement period is normally within 3 days from transaction date. Generally, there is no credit period granted to customers, except for certain corporate customers in relation to sales of food ingredients, which credit period of 30 days is granted by the Group, and therefore are all classified as current.

The maximum exposure to credit risk at 31 December 2018 and 2017 is the carrying value of trade receivables mentioned above. The Group does not hold any collateral as security.

Prepayments, deposits and other receivables

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Prepayments	**14,286**	13,702
Prepaid listing expenses	**—**	5,449
Rental and utilities deposits	**68,014**	72,006
Other receivables	**3,379**	170
	85,679	91,327
Less: non-current portion		
— Rental and utilities deposits	**(45,532)**	(57,800)
— Prepayments for purchase of property, plant and equipment	**(1,414)**	—
Current portion	**38,733**	33,527

At 31 December 2018, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

The maximum exposure to credit risk as at 31 December 2018 and 2017 was the carrying value of each class of receivable mentioned above. The Group did not hold any collateral as security. The carrying amounts of deposits and other receivables approximate to their fair values and are denominated in HK$.

11. TRADE PAYABLES, CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

Trade payables

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
External suppliers	**42,327**	35,787

An ageing analysis of the trade payables as at 31 December 2018 and 2017, based on the invoice date, is as follows:

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
Within 30 days	**31,798**	26,238
31–60 days	**10,294**	8,025
61–180 days	**24**	877
Over 180 days	**211**	647
	42,327	35,787

The trade payables are non-interest-bearing with payment terms of 30–60 days in general. The carrying amounts of trade payables approximate to their fair values and are denominated in HK$.

Contract liabilities, other payables and accruals

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
Rent payable	**1,835**	707
Provision for effective rental	**13,598**	11,628
Accrued employee benefit expenses	**21,530**	20,016
Provision for long service payment	**3,029**	1,657
Provision for untaken annual leave	**4,149**	4,071
Provision for reinstatement costs *(Note (a))*	**19,455**	18,464
Accrued listing expenses	**77**	5,670
Contract liabilities (2017: Advances from customers and deferred revenue)	**25,911**	24,845
Other accrued expenses	**13,812**	10,367
Payables for purchase of property, plant and equipment	**7,820**	5,086
Others payables	**59**	69
	111,275	102,580
Less: non-current portion		
— Provision for reinstatement costs *(Note (a))*	**(13,227)**	(14,825)
Current portion	**98,048**	87,755

The carrying amounts of other payables and accruals approximate to their fair values, as the impact of discounting is not significant, and are mainly denominated in HK$.

(a) Provision for reinstatement costs

Movements in the Group's provision for reinstatement costs are as follows:

	As at 31 December 2018	As at 31 December 2017
	HK$'000	*HK$'000*
At the beginning of the year	**18,464**	14,893
Additional provision during the year	**3,626**	4,928
Settlements	**(2,635)**	(1,357)
At the end of the year	**19,455**	18,464

12. SHARE CAPITAL

(a) Authorised:

	2018 Number of shares	2018 Nominal value HK$'000	2017 Number of shares	2017 Nominal value HK$'000
At beginning of the year/9 June 2017 (date of incorporation)	**3,800,000**	**380**	380,000	380
Increase in authorised share capital *(Note (i))*	**3,996,200,000**	**399,620**	3,420,000	—
At end of the year	**4,000,000,000**	**400,000**	3,800,000	380

(b) Issued and fully paid:

	2018 Number of shares	2018 Nominal value HK$'000	2017 Number of shares	2017 Nominal value HK$'000
At beginning of the year/9 June 2017 (date of incorporation)	**10**	**—**	1	—
Effect on share subdivision *(Note (ii))*	**—**	**—**	9	—
Capitalisation issue of shares *(Note (iii))*	**599,999,990**	**60,000**	—	—
Shares issued pursuant to the global offering *(Note (iv))*	**200,000,000**	**20,000**	—	—
At end of the year	**800,000,000**	**80,000**	10	—

Notes:

(i) On 4 May 2018, the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 shares of HK$0.1 each to HK$400,000,000 divided into 4,000,000,000 shares of HK$0.1 each through the creation of an additional 3,996,200,000 shares.

(ii) Pursuant to a resolution passed on 22 August 2017, every one share of the Company's issued shares with nominal value of HK$1 per share have been subdivided into 10 shares with nominal value of HK$0.1 with effect from 22 August 2017.

(iii) Pursuant to the written resolution passed by the shareholders on 4 May 2018 and conditional upon the share premium account of the Company being credited as a result of the share offer, the directors of the Company are authorised to capitalise an amount of HK$59,999,990 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 599,999,990 shares for allotment and issue to the then shareholders (the "**Capitalisation**").

(iv) On 30 May 2018, the Company issued 200,000,000 ordinary shares of HK$0.1 each at a price of HK$1.1 per share pursuant to the initial public offering and listing of the Company's shares on the Main Board of the Stock Exchange.

13. EVENT AFTER THE REPORTING PERIOD

On 14 March 2019, LHG Procurement Limited, a direct wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement to acquire the entire issued shares of Way Sure Limited (the "**Target Company**"), and all debts owing by the Target Company to the vendors and their respective associates (if any) as at 17 June 2019 at a consideration of HK$35,000,000.

The Target Company is a company incorporated in Hong Kong with limited liability and is principally engaged in property holding and property leasing business. The principal asset of the Target Company is a property located at Workshop Part 1, Ground Floor, Wah Fai Industrial Building, No. 4 Sze Shan Street, Kowloon, Hong Kong. The property is a commercial property with a saleable area of approximately 5,559 square feet.

The property will be used by the Group to expand its operations and existing central processing and logistic centre. The proposed acquisition will enhance the Group's capacity for food preparation, food processing and cutting and provide additional storage space for food ingredients and products, which will also enable the Group to save rental expenses in relation to storage. The proposed acquisition will be financed by the internal resources of the Group.

For details, please refer to the announcement of the Company dated 14 March 2019.

Saved as mentioned above, no significant events occurred after the reporting period and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a top full service multi-brand restaurant group with 39 restaurants in Hong Kong specialising in Cantonese and Asian (in particular Japanese) cuisine.

As at 31 December 2018, the Group operated five Cantonese restaurants under four self-owned brands in Hong Kong, namely, *"The Banqueting House (御苑皇宴)"*, *"China Hall (御苑)"*, *"LHGrand (叙福樓金閣)"* and *"Pot Master (煲仔王)"*; and 34 Asian restaurants under three self-owned brands, namely, *"Mou Mou Club (牛涮鍋)"*, *"Peace Cuisine (和平飯店)"* and *"Goolo (咕咾)"*, and four franchised brands, namely *"Gyu-Kaku (牛角)"*, *"Gyu-Kaku Jinan-Bou (牛角次男坊)"*, *"On-Yasai (温野菜)"* and *"Yoogane (柳氏家)"*, which served quality, value-for-money delicacies to diversified customer segments seeking a wide array of culinary experiences. We pride ourselves in the extensive market coverage of our brand portfolio, which allows us to tap into customer segments spanning across mid-to-high end market to mass market with different culinary preferences.

The following table sets forth the number of restaurants we operated as at the dates indicated.

	As at 31 December	
	2018	2017
Cantonese cuisine restaurants		
— Self-owned brands	**5**	7
Asian cuisine restaurants		
— Self-owned brands	**13**	10
— Franchised brands	**21**	17
Sub-total of Asian restaurants:	**34**	27
Total:	**39**	34

As disclosed in the section headed "Future plans and use of proceeds" in the prospectus dated 15 May 2018, the Group will continue to open new restaurants in Hong Kong going forward in accordance with our expansion plan and the Group will exercise due care in identifying adequate opportunities and planning for the opening of new restaurants.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately 21.1%, or approximately HK$174.9 million, from approximately HK$829.2 million for the year ended 31 December 2017 to approximately HK$1,004.1 million for the year ended 31 December 2018. The increase in revenue was due to the increase in revenue from restaurant operations, which is primarily driven by an amount of approximately HK$154.6 million or approximately 48.4% increase in revenue from our Asian cuisine restaurants — franchised brands during the year ended 31 December 2018 as compared with the year ended 31 December 2017. The revenue from Asian cuisine restaurants — franchised brands as a percentage of the Group's revenue increased from approximately 38.6% for the year ended 31 December 2017 to approximately 47.2% for the year ended 31 December 2018.

	For the year ended 31 December			
	2018		2017	
	Revenue	**% of total Revenue**	Revenue	% of total Revenue
	HK$'000	***(%)***	*HK$'000*	*(%)*
Cantonese cuisine restaurants				
— Self-owned brands	**273,624**	**27.3**	272,060	32.8
Asian cuisine restaurants				
— Self-owned brands	**240,036**	**23.9**	217,143	26.2
— Franchised brands	**474,329**	**47.2**	319,694	38.6
Sub-total of restaurant operations	**987,989**	**98.4**	808,897	97.6
Sale of food ingredients	**16,116**	**1.6**	20,255	2.4
Total	**1,004,105**	**100.0**	829,152	100.0

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 25.9%, or approximately HK$59.3 million, from approximately HK$228.6 million for the year ended 31 December 2017 to approximately HK$287.9 million for the year ended 31 December 2018. The increase was in line with the increase in revenue during the year ended 31 December 2018. The cost of food and beverages as a percentage of revenue remained relatively stable at approximately 28.7% for the year ended 31 December 2018 (year ended 31 December 2017: 27.6%).

Staff costs

The Group's staff costs increased by approximately 17.1%, or approximately HK$44.4 million, from approximately HK$259.5 million for the year ended 31 December 2017 to approximately HK$303.9 million for the year ended 31 December 2018. Such increase was primarily due to the increased salary and wages in order to cope with our increased business operation and business expansion plan during the year ended 31 December 2018. The staff costs as a percentage of revenue decreased from approximately 31.3% for the year ended 31 December 2017 to approximately 30.3% for the year ended 31 December 2018.

Property rentals and related expenses

The Group's property rentals and related expenses increased by approximately 19.0%, or approximately HK$29.0 million, from approximately HK$152.5 million for the year ended 31 December 2017 to approximately HK$181.5 million for the year ended 31 December 2018. Such increase was mainly attributable to an increase in the monthly rentals of the Group's leased properties upon renewal of the relevant leases and new properties leased. The property rentals and related expenses as a percentage of revenue remained stable at approximately 18.1% for the year ended 31 December 2018 (year ended 31 December 2017: 18.4%).

Listing expenses

Listing expenses comprise professional fees and other expenses in relation to the Listing. The Group's listing expenses amounted to approximately HK$8.0 million for the year ended 31 December 2018 as compared with approximately HK$16.1 million for the year ended 31 December 2017 as more expenses incurred during the year ended 31 December 2017 in preparation for the Listing.

Profit for the year

Profit for the year ended 31 December 2018 increased by approximately 46.3%, or approximately HK$11.1 million, from approximately HK$24.0 million for the year ended 31 December 2017 to approximately HK$35.1 million for the year ended 31 December 2018. Such increase was mainly due to the combined effect of (i) decrease in listing expenses incurred for the year ended 31 December 2018 by approximately HK$8.1 million as compared with the year ended 31 December 2017; and (ii) other factors discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business with internally generated cash flows and proceeds received from the Listing. As at 31 December 2018, the Group had short term bank deposits of approximately HK$148.0 million (as at 31 December 2017: nil) and cash and cash equivalents of approximately HK$142.3 million (as at 31 December 2017: approximately HK$70.0 million). Most bank deposits and cash were denominated in Hong Kong dollar. The Group will continue to use the internal generated cash flows and proceeds received from the Listing as a source of funding for future developments.

As at 31 December 2018, the Group's total current assets and current liabilities were approximately HK$371.1 million (as at 31 December 2017: approximately HK$146.3 million) and approximately HK$147.4 million (as at 31 December 2017: approximately HK$128.5 million) respectively, while the current ratio was about 2.5 times (as at 31 December 2017: about 1.1 times).

As at 31 December 2018, the Group did not have any bank borrowings or finance lease payables.

As at 31 December 2018, the gearing ratio of the Group was not applicable as it had no outstanding debt.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 December 2018, the Group had no material acquisition or disposal of subsidiaries, associates or joint ventures.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not pledge any assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 1,041 employees (as at 31 December 2017: 1,052 employees). The remuneration of the employees is determined by reference to prevailing market terms and in accordance with the performance, qualification and experience of each individual employee.

The emoluments of the Directors are recommended by the remuneration committee of the Company, with reference to their respective contribution of time, effort and expertise on the Company's matters. The Company has adopted a share option scheme (the "**Share Option Scheme**") on 4 May 2018 to reward the participants defined thereunder for their contribution to the Group's success and to provide them with incentives to further contribute to the Group. The Share Option Scheme has become effective on 30 May 2018. In addition, employees are entitled to performance and discretionary new year bonuses.

No share option was granted during the year ended 31 December 2018. As at 31 December 2018, the Company had no outstanding share option under the Share Option Scheme.

FOREIGN EXCHANGE EXPOSURE

Most of the transactions of the Group are denominated in HK$ and the Group is not exposed to any significant foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the date of this announcement, the Group had not entered into any off-balance sheet transactions.

PROSPECTS

The Group's strategic objective is to continue solidifying our market position as a top multi-brand full service restaurant group in Hong Kong and enhancing market penetration into different customer segments. To achieve such objective, the Group will continue to implement the following strategies:

- Expanding our restaurant network and enhancing our market penetration in Hong Kong;

- Strengthening our multi-brand business model with new additions to our brand portfolio; and

- Enhancing operational efficiency and cost savings.

To cater for our business expansion, we intend to set up a new central processing and logistic centre to enhance the Group's capacity for food preparation, food processing and cutting and provide additional storage space for food ingredients and products.

SUFFICIENCY OF 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 at least 25% of the issued Shares from the Listing Date to the date of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") of the Company will be held on Wednesday, 19 June 2019. The notice of AGM, which constitutes part of the circular to the shareholders of the Company (the "**Shareholders**"), will be sent together with the 2018 annual report in due course.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK5.4 cents per share, totalling HK$43,200,000 to the Shareholders whose names will appear on the register of members of the Company (the "**Register of Members**") on Friday, 28 June 2019, subject to the approval of the Shareholders at the AGM. If the resolution for the proposed final dividend is passed at the AGM, the proposed final dividend will be payable on or around 15 July 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of eligibility to attend and vote at the AGM, the Register of Members will be closed from Friday, 14 June 2019 to Wednesday, 19 June 2019, both days inclusive during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 13 June 2019.

For the purpose of determination of entitlement to the final dividend, the Register of Members will be closed from Wednesday, 26 June 2019 to Friday, 28 June 2019, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 25 June 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance.

For the period from the Listing Date to 31 December 2018, save for the deviation from code provision A.2.1 of the CG Code, the Company had complied with all the code provisions of the CG Code and adopted most of the best practices set out therein.

Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. Mr. Wong Kit Lung Simon ("**Mr. Wong**") currently holds both positions. Mr. Wong has been the key leadership figure of the Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group's operations as he directly supervises our senior management. Taking into account the continuation of the implementation of our business plans, the Directors (including the independent non-executive Directors) consider Mr. Wong as the best candidate for both positions and the present arrangements are beneficial and in the interests of the Group and the Shareholders as a whole. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises three executive Directors (including Mr. Wong) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the period from the Listing Date to 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2018.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely Ms. Hung Lo Shan Lusan (Chairperson), Mr. Hung Wai Man and Mr. Sin Yat Kin. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee, together with management, has reviewed the consolidated annual results of the Group for the year ended 31 December 2018.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2018 have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2018 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (*www.hkexnews.hk*) and the Company (*www.lhgroup.com.hk*), and the 2018 annual report containing the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management team and all the staff of the Group for their continuous support and contribution. The Board also takes this opportunity to thank our Shareholders, customers, business partners and professional parties for their unreserved support in the prospects of the Group.

By order of the Board
LH GROUP LIMITED
Wong Kit Lung Simon ***JP***
Chairman

Hong Kong, 27 March 2019

As at the date of this announcement, the Board comprises Mr. Wong Kit Lung Simon JP, Ms. Ko Sau Chee Grace and Mr. Ho Chi Wai as executive Directors, and Mr. Sin Yat Kin SBS, Ms. Hung Lo Shan Lusan and Mr. Hung Wai Man JP as independent non-executive Directors.