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 2019

## HIGHLIGHTS

- Revenue was approximately HK$2,627.2 million (2018: approximately HK$2,962.0 million), representing a decrease of approximately 11.3%
- Gross profit margin[1] was at approximately 70.4% (2018: approximately 70.5%), representing a decrease of approximately 0.1 percentage point
- Earnings before interest expense, tax, depreciation and amortisation was approximately HK$126.6 million (2018: approximately HK$159.8 million), representing a decrease of approximately 20.8%
- Profit for the year attributable to owners of the Company was approximately HK$25.5 million (2018: approximately HK$42.5 million), representing a decrease of approximately 40.0%
- Basic earnings per share[2] was approximately HK1.96 cents (2018: approximately HK3.27 cents), representing a decrease of approximately 40.0%
- The guest count was approximately 24.2 million (2018: approximately 27.5 million), representing a decrease of approximately 12.0%
- The gearing ratio of the Group was approximately 0.1% (2018: approximately 1.2%)
- The Board has recommended a final dividend of HK0.79 cents per ordinary share for the year ended 31 March 2019 (2018: special final – HK3.69 cents per ordinary share, final – HK1.31 cents per ordinary share)

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 earnings per share amounts is based on profit for the year attributable to ordinary equity holders of the Company of approximately HK$25,496,000 (2018: approximately HK$42,477,000) and the weighted average number of ordinary shares of 1,300,000,000 (2018: 1,300,000,000) 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 2019, together with comparative figures for the year ended 31 March 2018, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 March 2019*

| | *Notes* | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|---|
| **REVENUE** | *5* | **2,627,192** | 2,961,974 |
| Other income and gains, net | *5* | **18,104** | 21,269 |
| Cost of inventories sold | | **(778,226)** | (874,762) |
| Staff costs | | **(880,271)** | (977,101) |
| Property rentals and related expenses | | **(471,443)** | (545,771) |
| Depreciation | | **(85,514)** | (98,800) |
| Fuel and utility expenses | | **(157,953)** | (180,472) |
| Other expenses | | **(230,830)** | (245,307) |
| Finance costs | *6* | **(345)** | (622) |
| **PROFIT BEFORE TAX** | *7* | **40,714** | 60,408 |
| Income tax expense | *8* | **(15,134)** | (17,931) |
| **PROFIT FOR THE YEAR** | | **25,580** | 42,477 |
| **Attributable to:** | | | |
| Owners of the Company | | **25,496** | 42,477 |
| Non-controlling interests | | **84** | – |
| | | **25,580** | 42,477 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| – Basic | *10* | **HK1.96 cents** | HK3.27 cents |
| – Diluted | *10* | **HK1.96 cents** | HK3.26 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 March 2019*

| | 2019 | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **PROFIT FOR THE YEAR** | **25,580** | 42,477 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| – Exchange differences on translation of foreign operations | **(4,131)** | 6,020 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **21,449** | 48,497 |
| **Attributable to:** | | |
| Owners of the Company | **21,365** | 48,497 |
| Non-controlling interests | **84** | – |
| | **21,449** | 48,497 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *11* | **201,433** | 223,600 |
| Goodwill | | **58,707** | 58,707 |
| Intangible assets | | **13,000** | 13,000 |
| Deposits and other receivables | | **147,349** | 110,168 |
| Deferred tax assets | | **20,671** | 21,190 |
| Total non-current assets | | **441,160** | 426,665 |
| **CURRENT ASSETS** | | | |
| Inventories | *12* | **86,420** | 72,088 |
| Trade receivables | *13* | **24,182** | 20,906 |
| Prepayments, deposits and other receivables | | **148,385** | 116,173 |
| Tax recoverable | | **5,351** | 6,822 |
| Pledged time deposit | | **–** | 71,142 |
| Cash and cash equivalents | | **496,922** | 623,169 |
| Total current assets | | **761,260** | 910,300 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *14* | **88,808** | 111,138 |
| Other payables, accruals and deferred income | | **117,967** | 124,966 |
| Interest-bearing bank borrowings | | **400** | 10,783 |
| Finance lease payables | | **389** | 484 |
| Provision | | **4,994** | 12,439 |
| Tax payable | | **8,853** | 4,910 |
| Total current liabilities | | **221,411** | 264,720 |
| **NET CURRENT ASSETS** | | **539,849** | 645,580 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **981,009** | 1,072,245 |

| | 2019 | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **NON-CURRENT LIABILITIES** | | |
| Accruals and deferred income | **22,269** | 27,371 |
| Finance lease payables | **352** | 741 |
| Provision | **19,048** | 18,300 |
| Deferred tax liabilities | **985** | 279 |
| Total non-current liabilities | **42,654** | 46,691 |
| Net assets | **938,355** | 1,025,554 |
| **EQUITY** | | |
| **Equity attributable to owners of the Company** | | |
| Issued capital | **1,300** | 1,300 |
| Reserves | **936,371** | 1,024,254 |
| | **937,671** | 1,025,554 |
| Non-controlling interests | **684** | – |
| Total equity | **938,355** | 1,025,554 |

## 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 15th Floor, Luk Hop Industrial Building, 8 Luk Hop Street, San Po Kong, Kowloon, 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

The 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The financial statements are prepared in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2014-2016 Cycle* | *Amendments to HKFRS 1 and HKAS 28* |

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

**HKFRS 9** ***Financial Instruments***

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39") for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has adopted HKFRS 9 using the modified retrospective method of adoption from the date of initial application, i.e., 1 April 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. No transition adjustments against the opening balances in equity at 1 April 2018 was recognised.

***(a) Classification and measurement***

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, rental deposits, financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and cash equivalents.

The assessment of the Group's business models was made as of the date of initial application i.e., 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has no impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

***(b) Impairment***

HKFRS 9 requires an impairment on financial assets that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its trades receivables. Furthermore, the Group applied general approach and recorded twelve-month expected credit losses ("ECLs") that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

**HKFRS 15** ***Revenue from Contracts with Customers***

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 April 2018.

The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

Except for the reclassification effect below, the adoption of HKFRS 15 did not have material financial impact on the Group's consolidated financial statements.

Reclassifications were made as at 1 April 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers of HK$13,112,000 were reclassified from receipt in advance from customers to contract liabilities which are under the same line item of other payables, accruals and deferred income in the consolidated statement of financial position.

## 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 resources 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 2019 and 2018, and certain non-current asset information as at 31 March 2019 and 2018, by geographical areas.

*(a) Revenue from external customers*

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong | **2,502,812** | 2,850,850 |
| Mainland China | **124,380** | 111,124 |
| | **2,627,192** | 2,961,974 |

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

*(b) Non-current assets*

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong | **302,131** | 283,777 |
| Mainland China | **40,107** | 38,024 |
| | **342,238** | 321,801 |

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

**Information about major customers**

Since no single customer of the Group has contributed 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:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Restaurant operations | **2,562,636** | 2,892,952 |
| Sale of food and other operating items | **64,556** | 69,022 |
| | **2,627,192** | 2,961,974 |

**Revenue from contracts with customers**

***(i) Disaggregated revenue information***

**For the year ended 31 March 2019**

| | ***HK$'000*** |
|---|---|
| **Geographical markets** | |
| Hong Kong | **2,502,812** |
| Mainland China | **124,380** |
| | **2,627,192** |

The following table shows the amounts of revenue recognised in the current period that were included in the contract liabilities at the beginning of the reporting period:

| | **2019** |
|---|---|
| | ***HK$'000*** |
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | |
| Restaurant operations | **13,112** |

***(ii) Performance obligations***

Information about the Group's performance obligations is summarised below:

*Restaurant operations*

The performance obligation is satisfied when the customer obtains control of the promised goods, being at the point the customer purchases the goods at the restaurants. Payment of the transaction price is due immediately at the point the customer purchases the goods.

*Sale of food and other operating items*

The performance obligation is satisfied when the customer obtains control of the promised goods, being at the point the customer purchases the goods at the shops or upon delivery of the goods. Payment is generally due at the point the customer purchases the goods at shops or within 30 to 60 days from delivery.

**Other income and gains**

An analysis of other income and gains is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **3,081** | 3,339 |
| Licensing income | **1,730** | 2,086 |
| Sponsorship income | **6,223** | 8,314 |
| Gain on disposal of items of property, plant and equipment | **138** | 454 |
| Gain on waiver of reinstatement liabilities | **3,272** | 3,052 |
| Foreign exchange differences, net | **–** | 1,313 |
| Others | **3,660** | 2,711 |
| | **18,104** | 21,269 |

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank overdrafts and bank loans | **289** | 532 |
| Interest on finance leases | **56** | 90 |
| | **345** | 622 |

## 7. PROFIT BEFORE TAX

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

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Lease payments under operating leases: | | |
| Minimum lease payments | **398,341** | 462,610 |
| Contingent rents | **1,689** | 1,468 |
| | **400,030** | 464,078 |
| Employee benefit expenses (including directors' remuneration) | | |
| Salaries, bonuses and other allowances | **847,362** | 938,971 |
| Equity-settled share option expense | **1,252** | 1,653 |
| Retirement benefit scheme contributions (defined contribution schemes) | **31,657** | 36,477 |
| | **880,271** | 977,101 |
| Impairment of trade receivables | **2,137** | – |
| Impairment/(reversal of impairment) of other receivables | **2,546** | (15) |
| Impairment of items of property, plant and equipment | **1,294** | 287 |
| Write-off of items of property, plant and equipment | **277** | 4,287 |
| Loss on disposal of subsidiaries | **1,717** | – |
| Foreign exchange differences, net | **467** | (1,313) |

## 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Commencing from the year ended 31 March 2019, the assessable profits of a Hong Kong incorporated subsidiary (as elected by the directors) are subject to the two-tiered profits tax rates regime which was effective on 28 March 2019 that the first HK$2 million of assessable profits will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%.

Taxes on profits assessable in Mainland China have been calculated at the rate of 25% (2018: 25%) during the year.

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **13,126** | 12,528 |
| Underprovision/(overprovision) in prior years | **72** | (341) |
| Current – Mainland China | | |
| Charge for the year | **364** | 1,753 |
| Underprovision in prior years | **387** | – |
| Deferred | **1,185** | 3,991 |
| Total tax charge for the year | **15,134** | 17,931 |

## 9. DIVIDEND

| | 2019 | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Dividend recognised as distribution during the year:** | | |
| Final 2018 – HK1.31 cents (2018: Final 2017 – HK2.55 cents) per ordinary share | **17,030** | 33,150 |
| Special final 2018 – HK3.69 (2018: Nil) per ordinary share | **47,970** | – |
| Special interim 2019 – HK3.5 cents (2018: Nil) per ordinary share | **45,500** | – |
| | **110,500** | 33,150 |
| **Dividend proposed after the end of the reporting period:** | | |
| Proposed final 2019 – HK0.79 cents (2018: Proposed final 2018 – HK1.31 cents) per ordinary share | **10,270** | 17,030 |
| Proposed special final 2019 – Nil (2018: Proposed special final 2018 – HK3.69 cents) per ordinary share | **–** | 47,970 |
| | **10,270** | 65,000 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The special final dividend of HK3.69 cents per ordinary share and the final dividend of HK1.31 cents per ordinary share, totalling approximately HK$65,000,000 for the year ended 31 March 2018 were approved by the Company's shareholders on 28 August 2018.

The Board has resolved to declare a one-off special interim dividend of HK3.5 cents per ordinary share, totalling approximately HK$45,500,000 for the year ended 31 March 2019. The proposed special dividend was approved at the Company's board meeting held on 28 November 2018.

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

The calculation of the basic earnings per share amounts is based on profit for the year attributable to ordinary equity holders of the Company of HK$25,496,000 (2018: HK$42,477,000) and the weighted average number of ordinary shares of 1,300,000,000 (2018: 1,300,000,000) in issue during the year.

Diluted earnings per share amount presented for the year equals to basic earnings per share amount presented for the year because the share options had no dilutive effect on the basic earnings per share amount for the year and were accordingly ignored in the calculation of diluted earnings per share amount.

In the prior year, the calculation of the diluted earnings per share amounts was based on the profit for the year ended 31 March 2018 attributable to ordinary equity holders of the Company of HK$42,477,000, and the total of (i) the weighted average number of ordinary shares of 1,300,000,000, as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares of 2,060,300 assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | **25,496** | 42,477 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation | **1,300,000,000** | 1,300,000,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **–** | 2,060,300 |
| Weighted average number of ordinary shares, used in the diluted earnings per share calculation | **1,300,000,000** | 1,302,060,300 |

## 11. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired items of property, plant and equipment amounting to approximately HK$74,583,000 (2018: approximately HK$62,085,000).

## 12. INVENTORIES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Food and beverages | **81,567** | 66,438 |
| Other operating items for restaurant operations | **4,853** | 5,650 |
| | **86,420** | 72,088 |

## 13. TRADE RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Credit card receivables | **9,621** | 10,706 |
| Others | **19,509** | 13,011 |
| | **29,130** | 23,717 |
| Impairment | **(4,948)** | (2,811) |
| | **24,182** | 20,906 |

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 (2018: 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, net of loss allowance as at the end of the reporting period, based on the invoice date is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **13,393** | 14,178 |
| 1 to 3 months | **5,073** | 2,377 |
| 3 to 12 months | **4,755** | 3,723 |
| Over 12 months | **961** | 628 |
| | **24,182** | 20,906 |

The movements in provision for impairment of trade receivables are as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **2,811** | 2,811 |
| Impairment losses recognised (note 7) | **2,137** | – |
| At end of year | **4,948** | 2,811 |

## 14. TRADE PAYABLES

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **57,660** | 74,693 |
| 1 to 3 months | **30,013** | 35,075 |
| 3 to 12 months | **892** | 1,043 |
| Over 12 months | **243** | 327 |
| | **88,808** | 111,138 |

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:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank guarantees given in lieu of rental and utility deposits | **46,592** | 48,842 |

## 16. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its restaurants, office premises and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to twelve years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **383,971** | 317,869 |
| In the second to fifth years, inclusive | **320,760** | 367,949 |
| Beyond five years | **34,953** | 62,721 |
| | **739,684** | 748,539 |

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.

## 17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital commitments at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted, but not provided for: | | |
| Property, plant and equipment | **1,310** | 9,037 |

In addition, on 28 March 2018, the Company, through its indirect wholly-owned subsidiary, entered into a provisional agreement and a commitment letter with an independent third party to acquire a property (which is currently under construction) and the right to name the Chinese name of the development to be erected in or upon all that piece of ground registered in Hong Kong for an aggregate cash consideration of HK$194,712,000 (collectively, the "Acquisition"). As at 31 March 2019, an aggregate amount of deposits of HK$48,678,000 (2018: HK$20,671,000) was made by the Group in respect of the Acquisition. The remaining balance of the consideration of HK$146,034,000 will be paid upon the completion of the Acquisition which is expected to be at the end of year 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

At present, the global economy is ridden with uncertainties, while inflation is rising in Hong Kong. According to the data released by the Census and Statistics Department of Hong Kong, the Composite Consumer Price Index rose by 2.2%, i.e. the underlying inflation rate, year on year in the first quarter of 2019, while the possible higher prices of commodities and food ingredients resulted from economic instability exert certain pressure on the catering industry. Nevertheless, the provisional estimate of the total restaurant receipts increased by 3% in value in the first quarter of 2019 as compared with the corresponding quarter of last year, of which, the total receipts of non-Chinese restaurants increased by 4.8% in value year on year, indicating a growing demand for restaurants with great variety of cuisines. Despite great market volatility, the Group is still full of confidence towards the prospects of the industry and continues to implement prudent yet optimistic development strategies in response to the challenges.

For the PRC market, according to the "Report on Catering Industry of China in 2019 (《中國餐飲報告2019》)" released by Meituan Dianping, the national income of the catering industry in 2018 exceeded RMB 4 trillion, yet the current per capita consumption in the Chinese catering industry represents less than one-fifth of that of the United States, which means that there is huge potential for growth. Factors such as improving living standard, middle class consumption upgrade and rapid urbanisation led to diversified market segments and product categories as well as rapid differentiation in the catering industry. Amidst intensified competition of the industry, the development approach shifted from scale and velocity-oriented to quality and efficiency-based.

### Business Review

During the year, the local catering needs was slightly volatile. The Group continued to adopt proactive and optimistic expansion strategy to establish new restaurants and to actively explore diversified brands to gratify local catering needs and enhance customers' dining experience. During the year, the Group has opened 4 restaurants under the "Fulum Concept (富臨概念)" main line in Hong Kong and 1 "Fulum Palace (富臨皇宮)" restaurant in the Mainland. As of 31 March 2019, the Group owned a total of 73 restaurants, including 29 restaurants under the "Fulum (富臨)" main brand, 11 restaurants under the "Sportful Garden (陶源)" main brand and 33 restaurants under the "Fulum Concept (富臨概念)" main line, in Hong Kong, and 4 restaurants in the Mainland.

"Fulum (富臨)" main brand and "Sportful Garden (陶源)" main brand are important cornerstone of the Group. Currently, restaurants under the "Fulum (富臨)" main brand, including "Royal One Pleasant Palace (皇室①號囍臨門)", "Fulum Palace (富臨皇宮)", "Fulum Restaurant (富臨酒家)", "Fulum Fisherman's Wharf Restaurant (富臨漁港)", "Pleasant Palace (囍臨門)", "Banquet Palace (金皇廷囍宴)" and "Fulum (富臨)", provide Cantonese cuisine for mass market customers, while restaurants under the "Sportful Garden (陶源)" main brand focus on mid to high-end Cantonese cuisine targeting mid to high-end customers.

Meanwhile, the Group proactively launched different restaurants under the "Fulum Concept (富臨概念)" main line in recent years, including "MeokBang Korean BBQ & Bar (炑八韓烤)" and "Meokbang Taste (炑八Taste)" specialising in Korean cuisine as well as "Treasure City Hot Pot Seafood Restaurant (富城火鍋海鮮酒家)", "Winter Steam Pot Restaurant (正冬火鍋料理)", "Winter Yutango Restaurant (正冬魚塘公)" and "Co Co Kitchen (四季文昌)" which mainly serve hotpot cuisine. During the prior year, a number of catering brands were newly launched under the "Fulum Concept (富臨概念)" main line, including "The Charcoal Room (柞木炭家)", a high-end Korean grill house currently opened in Causeway Bay and Mong Kok which offers food grilled over quality charcoal instead of being served on a cast iron plate; "Café Coco (加多樂餐廳)" opened in San Po Kong and "Lung Mun Cafe (龍門冰室)" opened in Tuen Mun and Aberdeen, both of which offer local bing sutt fast food; and "COTI", currently opened in Kwun Tong, Shek Mun and Tsuen Wan featuring quality coffee and tasty light meals which is well-received by neighbouring office workers.

The Group introduced a customer loyalty membership card programme in June 2015 in the restaurants of "Sportful Garden (陶源)" as a reward for Hong Kong loyal customers to enjoy value-added benefits or gifts. Currently, there are more than 48,000 members in total under such membership programme. The Group will provide more membership benefits and privileges in the future in order to broaden its long-term customer base.

For the PRC market, the Group opened its fourth "Fulum Palace (富臨皇宮)" restaurant during the past year. Located in Baiyun District, Guangzhou, the newly opened restaurant is popular among household consumers in the Mainland, while the other three "Fulum Palace (富臨皇宮)" restaurants are located in the densely-populated residential areas in Yuexiu District, Guangzhou, Zhuhai and Fuzhou, respectively and mainly provide mass catering services so as to meet the residents' demand for Chinese cuisine and wedding venues within the regions. Believing in the enormous consumption power in the Mainland market, the Group will open new restaurants in due course in the future to provide the Mainland citizens with quality catering experience and services.

**Financial results**

During the year under review, the Group's revenue decreased by approximately 11.3% to approximately HK$2,627.2 million (2018: approximately HK$2,962.0 million) from last year.

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

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* | **% Change** |
|---|---|---|---|
| *Restaurant operations* | | | |
| "Fulum (富臨)" main brand | **1,705,488** | 2,065,371 | **(17.4)** |
| "Sportful Garden (陶源)" main brand | **350,742** | 396,553 | **(11.6)** |
| "Fulum Concept (富臨概念)" main line | **461,406** | 431,028 | **7.0** |
| *Sale of food and other operating items* | **64,556** | 69,022 | **(6.5)** |

During the year under review, the Group's gross profit margin was approximately 70.4% for the year (2018: approximately 70.5%). The profit attributable to owners of the Company decreased by approximately 40.0%, or approximately HK$16.9 million, from approximately HK$42.5 million for the year ended 31 March 2018 to approximately HK$25.5 million for the year ended 31 March 2019. The decrease was mainly due to the decrease in number of restaurants and therefore decrease in revenue during the year. The Group's management has implemented strategies in response to the abovementioned circumstances and believes that the Group's performance will gradually improve in the future.

**Prospects and Outlook**

The Group is confident of the long-term prospects of the catering market in Hong Kong and the PRC. It will continue to adopt a proactive and optimistic attitude to fine-tune its menu and realign the brand portfolios, increase the proportion of restaurants under the "Fulum Concept (富臨概念)" main line and explore new mode of operation, for instance, a brand new food court under the "Fulum Concept (富臨概念)" main line will be opened in Yuen Long District in July 2019, allowing the Group to gain market share and diversify its income base. In the meantime, the Group will proactively explore opportunities for mergers and acquisitions in the industry and continue to identify different catering brands, especially those of Asian brands for mergers and acquisitions, in order to establish Fulum Group as a highly diversified catering kingdom.

For the PRC market, as the mass catering market in the Mainland continues its rapid development, the Group is full of confidence in the long-term development of the market. Looking forward, the Group will continue to increase gradually the number of restaurants in the PRC to broaden its customer base and increase its market share.

**Financial resources and liquidity**

As at 31 March 2019, the Group's total assets decreased to approximately HK$1,202.4 million (2018: approximately HK$1,337.0 million) while the total equity decreased to approximately HK$938.4 million (2018: approximately HK$1,025.6 million).

As at 31 March 2019, the Group had approximately HK$496.9 million in cash and bank balances available (2018: approximately HK$623.2 million). The current ratio of the Group was approximately 3.4 (2018: approximately 3.4).

As at 31 March 2019, the Group's total borrowings amounted to approximately HK$1.1 million (2018: approximately HK$12.0 million), which mainly consisted of finance leases in the amount of approximately HK$0.7 million (2018: approximately HK$1.2 million) and a tax loan of approximately HK$0.4 million (2018: approximately HK$10.8 million). These finance lease liabilities were denominated in Hong Kong dollars and the effective interest rates ranged from approximately 3.6% to 6.6% while a tax loan was denominated in Hong Kong dollars with effective interest rate of approximately 3.2% per annum and were repayable within one year. There are no material covenants relating to these outstanding indebtedness.

As at 31 March 2019, the gearing ratio (being the total of finance lease, tax loans and interest-bearing borrowings divided by total equity attributable to the owners of the Company) of the Group decreased to approximately 0.1% (2018: approximately 1.2%).

**Capital expenditure**

The capital expenditure during the year under review was primarily related to expenditures on additions and renovation of property, plant and equipment 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 and the acquisition of a property.

**Contingent liabilities**

As at 31 March 2019, the Group had contingent liabilities not provided for in the consolidated financial statements in the amount of approximately HK$46.6 million in relation to bank guarantees given in lieu of rental and utility deposits (2018: approximately HK$48.8 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 2019, the Group had approximately 3,290 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.

In addition, the Group also adopted the Pre-IPO Share Option Scheme (as defined below) and Share Option Scheme (as defined below), where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 March 2019, 42,420,000 options (2018: 43,450,000 options) were outstanding under the Pre-IPO Share Option Scheme and no share options have been exercised during the year. Also, as at 31 March 2019, no share option has been granted or agreed to be granted pursuant to the Share Option Scheme.

**Indebtedness and charges on Group's assets**

As at 31 March 2019, certain assets of the Group with carrying amount in aggregate of nil (2018: approximately HK$71.1 million) were pledged to secure its bank borrowings and/or utilities guarantees.

**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 has recommended a final dividend of HK0.79 cents per ordinary share for the year ended 31 March 2019 (2018: special final – HK3.69 cents per ordinary share, final – HK1.31 cents per ordinary share) to shareholders whose names appear on the register of members of the Company on 23 September 2019. The final dividends are subject to the approval of the shareholders of the Company at the forthcoming annual general meeting and, if approved, are to be payable in cash.

**Share Option Schemes**

The Company has adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") which became effective on 28 October 2014. The Company has granted 54,000,000 options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares of the Company subject to terms and conditions stipulated under the Pre-IPO Share Option Scheme. The exercise price shall be 60% of the final offer price to the public and the Pre-IPO Share Option Scheme is to remain in force for a period of five years from the grant date.

Pursuant to a post-IPO share option scheme (the "**Share Option Scheme**") adopted by the Company on 28 October 2014, the Directors may invite eligible participants to take up options at a price determined by the Board but in any event the share price of the option shall not be less than whichever is the highest of (i) the nominal value of Shares; (ii) the closing price of Shares as stated in the Stock Exchange daily quotations sheet on the offer date; and (iii) the average of the closing prices of 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 the 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 2019, 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 "**Chief Executive Officer**") of the Company should be separate and should not be performed by the same individual. For the year under review, the Company did not have a separate Chairman and Chief Executive Officer, with Mr. Yeung Wai performing these two 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 Chief Executive Officer is in the best interest of the Group in order to ensure continuity of leadership and efficiency in formulation and execution of corporate strategies, and that there is adequate balance of power and authority in place.

The Board is committed to maintain 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 2019 and up to the date of this announcement.

**Purchases, sale or redemption of listed securities**

For the year ended 31 March 2019, 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, as at the date of this announcement, the Company maintained a sufficient public float of the issued Shares (i.e. at least 25% of the issued Shares in the public hands) as required under the Listing Rules.

**Events after the year under review**

There are no other material subsequent events undertaken by the Group after 31 March 2019 and up to the date of this announcement.

**Audit Committee**

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 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. Currently, Mr. Fan Chun Wah Andrew, Mr. Wu Kam On Keith and Mr. Ng Ngai Man Raymond, all being independent non-executive Directors, are members of the Audit Committee with Mr. Wu Kam On Keith, being the chairman. All of them possess extensive experience in financial and general management.

The work performed by the Audit Committee during the year ended 31 March 2019 included (i) to review external auditors' management letter and management response; (ii) to review the interim and annual reports before submission to the Board for approval; (iii) to review the progress and effectiveness of the Group's internal control and risk management; (iv) to review the continuing connected transactions of the Company; and (v) to consider the terms of engagement and remuneration of external auditor for its provision of audit and permitted non-audit related services. The Audit Committee has reviewed the Group's consolidated statements for the year ended 31 March 2019. 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 disclosure 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 2019 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 2019. 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**

Subject to the approval of shareholders at the meeting, the final dividend will be payable on or about 4 October 2019 to shareholders whose names appear on the register of members of the Company after the close of business at 4:30 p.m. on 23 September 2019, and the register of members of the Company will be closed from 24 September 2019 to 25 September 2019, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all share transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 23 September 2019 for registration.

**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 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, Executive Director and Chief Executive Officer*

Hong Kong, 26 June 2019

*As at the date of this announcement, the Board comprises Mr. Yeung Wai, Mr. Yeung Yun Chuen, Mr. Yeung Yun Kei and Mr. Leung Siu Sun as executive Directors; and Mr. Fan Chun Wah Andrew, Mr. Wu Kam On Keith and Mr. Ng Ngai Man Raymond as independent non-executive Directors.*