LHGROUP
叙福樓集團

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 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	% Change
	HK$ million	*HK$ million*	
Revenue	**1,005.8**	1,004.1	0.2%
(Loss)/profit attributable to the shareholders of the Company	**(11.2)**	35.2	(131.9)%
(Loss)/earnings per share Basic and diluted *(HK cents)*	**(1.40)**	4.90	(128.6)%

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 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Revenue	4	**1,005,776**	1,004,105
Other income		**4,519**	3,853
Cost of food and beverages		**(292,786)**	(287,937)
Staff costs		**(301,392)**	(303,899)
Depreciation and amortisation		**(44,214)**	(50,658)
Depreciation of right-of-use assets		**(98,805)**	—
Property rentals and related expenses		**(73,602)**	(181,510)
Fuel and utility expenses		**(24,924)**	(28,583)
Advertising and marketing expenses		**(11,629)**	(12,982)
Other operating expenses		**(94,800)**	(87,302)
Provision for impairment of property, plant and equipment		**(20,176)**	(4,157)
Provision for impairment of right-of-use assets		**(48,444)**	—
Provision for impairment of intangible assets		**(569)**	—
Provision for impairment of financial assets		**(3,832)**	(1,854)
Listing expenses		**—**	(8,027)
Gain on disposal of subsidiaries		**13,101**	—
Loss on disposal of financial assets through profit or loss		**(5,000)**	—
Finance income	6	**4,150**	2,686
Finance costs	6	**(8,321)**	—
(Loss)/profit before taxation	5	**(948)**	43,735
Income tax expense	7	**(10,320)**	(8,575)
(Loss)/profit and total comprehensive (loss)/income for the year		**(11,268)**	35,160
Attributable to:			
Shareholders of the Company		**(11,226)**	35,211
Non-controlling interests		**(42)**	(51)
		(11,268)	35,160
(Loss)/earnings per share			
Basic and diluted	8	**HK(1.40) cents**	HK4.90 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	**31 December 2019** *HK$'000*	31 December 2018 *HK$'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**126,710**	130,567
Right-of-use assets		**227,331**	—
Investment property		**695**	720
Intangible assets		**6,015**	7,227
Rental and utilities deposits	10	**43,216**	45,532
Prepayments for property, plant and equipment	10	**575**	1,414
Deferred income tax assets		**23,875**	17,192
		428,417	202,652
CURRENT ASSETS			
Inventories		**24,517**	26,144
Trade receivables	10	**6,156**	13,045
Prepayments, deposits and other receivables	10	**18,277**	38,733
Tax recoverable		**1,737**	2,894
Short term bank deposits		**132,352**	148,000
Cash and cash equivalents		**130,759**	142,289
		313,798	371,105
Total assets		**742,215**	573,757
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	12	**80,000**	80,000
Share premium		**122,781**	122,781
Reserves		**71,492**	207,716
		274,273	410,497
Non-controlling interests		**—**	49
Total equity		**274,273**	410,546

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Note	**31 December 2019** *HK$'000*	31 December 2018 *HK$'000*
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	11	**15,009**	13,227
Lease liabilities		**157,100**	—
Deferred income tax liabilities		**5,839**	2,572
		177,948	15,799
CURRENT LIABILITIES			
Trade payables	11	**44,774**	42,327
Other payables and accruals	11	**65,102**	72,137
Contract liabilities		**22,952**	25,911
Lease liabilities		**131,472**	—
Tax payable		**25,694**	7,037
		289,994	147,412
Total liabilities		**467,942**	163,211
Total equity and liabilities		**742,215**	573,757

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 Asian cuisine including Japanese, Korean, Cantonese and Shanghainese 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 2019:

Annual Improvements Project (Amendment)	Annual Improvements 2015–2017 Cycle
HKAS 19 (Amendment)	Plan amendment, curtailment or settlement
HKAS 28 (Amendment)	Long-term interests in associates and joint ventures
HKFRS 9 (Amendment)	Prepayment features with negative compensation
HKFRS 16	Leases
HK (IFRIC) Int 23	Uncertainty over income tax treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 3(c). Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly 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
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendments)	Definition of a business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The above accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not 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 has elected the modified retrospective approach for transition to the new standard of leases. In accordance with the transition provisions in HKFRS 16, the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

The amount by which each financial statement line item is affected by the application of HKFRS 16 as compared to HKAS 17 (previously in effect) is as follows:

Consolidated statement of financial position (extract)	**31 December 2018 As originally presented**	**HKFRS 16 reclassification**	**1 January 2019 Restated**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	130,567	(6,063)	124,504
Right-of-use assets	—	273,569	273,569
Deferred income tax assets	17,192	2,803	19,995
Non-current liabilities			
Lease liabilities	—	199,375	199,375
Current liabilities			
Lease liabilities	—	85,120	85,120
Contract liabilities, other payables and accruals	98,048	(12,068)	85,980
Equity attributable to shareholders of the Company			
Reserves	207,716	(2,118)	205,598

As indicated in note 3(a) above, the group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.24%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

— applying a single discount rate to a portfolio of leases with reasonably similar characteristics;

— relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019;

— accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

— excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application; and

— using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	**327,290**
Discounted using the Group's incremental borrowing rate of 2.24%	**(18,129)**
Less: Short-term leases recognised on a straight-line basis as expenses	**(24,666)**
Lease liabilities recognised as at 1 January 2019	**284,495**
Of which are:	
Current lease liabilities	**85,120**
Non-current lease liabilities	**199,375**
	284,495

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

— property, plant and equipment — decreased by approximately HK$6,063,000

— right-of-use assets — increased by approximately HK$273,569,000

— deferred income tax assets — increased by approximately HK$2,803,000

— lease liabilities — increased by approximately HK$284,495,000

— other payables and accruals — decreased by approximately HK$12,068,000.

The net impact on retained earnings on 1 January 2019 was a decrease of HK$2,118,000.

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	
	2019	2018
	HK$'000	*HK$'000*
Recognised at a point in time:		
Restaurant operations	**991,090**	987,989
Sale of food ingredients	**14,686**	16,116
	1,005,776	1,004,105

(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"* and *"Peace Cuisine"*
(d)	Sale of food ingredients	Sale of food ingredients to related parties and external third parties

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

Segment assets consist primarily of property, plant and equipment, right-of-use assets, 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, contract liabilities, lease liabilities 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 of the Group's revenue was derived in Hong Kong. As at 31 December 2019 and 2018, all non-current assets of the Group were located in Hong Kong.

An analysis of the Group's revenue, (loss)/profit before taxation, depreciation and amortisation and provision for impairment for the years ended 31 December 2019 and 2018 and segment assets and liabilities as at 31 December 2019 and 2018 is as follows:

	For the year ended 31 December 2019				
	Cantonese cuisine — self-owned brands *HK$'000*	**Asian cuisine — franchised brands** *HK$'000*	**Asian cuisine — self-owned brands** *HK$'000*	**Sale of food ingredients** *HK$'000*	**Total** *HK$'000*
Segment revenue					
Revenue	**148,972**	**566,354**	**275,764**	**126,270**	**1,117,360**
Inter-segment revenue	**—**	**—**	**—**	**(111,584)**	**(111,584)**
External revenue	**148,972**	**566,354**	**275,764**	**14,686**	**1,005,776**
Segment (loss)/profit	**(25,931)**	**80,945**	**(6,376)**	**2,619**	**51,257**
Depreciation and amortisation	**(5,807)**	**(23,497)**	**(12,683)**	**—**	**(41,987)**
Depreciation of right-of-use assets	**(16,238)**	**(50,042)**	**(28,235)**	**—**	**(94,515)**
Provision for impairment	**(29,500)**	**(11,319)**	**(32,202)**	**—**	**(73,021)**
Segment profit					**51,257**
Unallocated depreciation and amortisation					**(2,227)**
Unallocated depreciation of right-of-use assets					**(4,290)**
Gain on disposal of subsidiaries					**13,101**
Loss on disposal of financial assets through profit or loss					**(5,000)**
Unallocated cost					**(57,565)**
Unallocated finance income					**4,150**
Unallocated finance cost					**(376)**
Loss before taxation					**(948)**
Segment assets	**30,982**	**211,644**	**126,837**	**90,501**	**459,964**
Segment liabilities	**(47,332)**	**(220,406)**	**(126,566)**	**(24,901)**	**(419,205)**

	For the year ended 31 December 2018				
	Cantonese cuisine — 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)

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

	As at 31 December 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Segment assets	**459,964**	284,339
Unallocated assets	**282,251**	289,418
	742,215	573,757

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

	As at 31 December 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Segment liabilities	**419,205**	132,706
Unallocated liabilities	**48,737**	30,505
	467,942	163,211

(c) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Advances from customers	**330**	9,266
Deferred revenue	**22,622**	16,645
Total contract liabilities	**22,952**	25,911

Advances from customers represents the payments received from customers for reserving banqueting services and coupons. 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.

	2019	2018
	HK$'000	*HK$'000*
Restaurant operations	**23,079**	24,845

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. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging the followings:

	2019	2018
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**43,546**	50,385
Depreciation of investment property	**25**	25
Amortisation of intangible assets	**643**	248
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	**21,763**	129,706
— Contingent rental	**12,935**	10,935
	34,698	140,641
Auditors' remuneration		
— Audit services	**2,200**	2,347
— Non-audit services	**550**	550

6. FINANCE INCOME AND COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest income from bank deposits	**4,150**	2,686
Finance costs paid for lease liabilities	**(6,466)**	—
Finance costs on financial assets	**(1,855)**	—
Finance costs	**(8,321)**	—

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 2019 (2018: 16.5%).

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

	2019	2018
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current income tax	**18,385**	13,046
Under/(over) provision in prior year	**1,223**	(478)
Deferred income tax	**(9,288)**	(3,993)
	10,320	8,575

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares in issue for the year ended 31 December 2018 is calculated based on the assumption that 600,000,000 shares were in issue at the beginning of the year, taking into consideration the effect of share split and the capitalisation issue.

	2019	2018
(Loss)/profit attributable to shareholders of the Company *(HK$'000)*	**(11,226)**	35,211
Weighted average number of shares in issue *('000)*	**800,000**	718,356
Basic (loss)/earnings per share *(HK cents)*	**(1.40)**	4.90

(b) Diluted

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

9. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Final dividend in respect of previous year, declared and paid during the year		
— HK5.40 cents (2018: nil) per share	**43,200**	—
Interim dividend declared and paid		
— HK4.96 cents (2018: nil) per share	**39,680**	—
Special dividend declared and paid		
— HK5.00 cents (2018: nil) per share	**40,000**	—
Dividends paid	**—**	28,997
	122,880	28,997

The dividend paid for the year ended 31 December 2018 was declared and paid before the Listing.

The Board did not propose a final dividend for the year ended 31 December 2019.

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 2019, based on the invoice date, is as follows:

	As at 31 December 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
Within 30 days	**5,451**	11,904
31–60 days	**401**	34
61–180 days	**304**	1,107
	6,156	13,045

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 2019 and 2018 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 2019 HK$'000	As at 31 December 2018 HK$'000
Prepayments	**7,852**	14,286
Rental and utilities deposits	**52,549**	68,014
Other receivables	**1,667**	3,379
	62,068	85,679
Less: non-current portion		
— Rental and utilities deposits	**(43,216)**	(45,532)
— Prepayments for property, plant and equipment	**(575)**	(1,414)
Current portion	**18,277**	38,733

The maximum exposure to credit risk as at 31 December 2019 and 2018 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, OTHER PAYABLES AND ACCRUALS

Trade payables

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
External suppliers	**44,774**	42,327

An ageing analysis of the trade payables as at 31 December 2019 and 2018, based on the invoice date, is as follows:

	As at 31 December 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
Within 30 days	**28,452**	31,798
31–60 days	**16,150**	10,294
61–180 days	**45**	24
Over 180 days	**127**	211
	44,774	42,327

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$.

Other payables and accruals

	As at 31 December 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
Rent payable	**1,940**	1,835
Provision for effective rental	**—**	13,598
Accrued employee benefit expenses	**19,731**	21,530
Provision for long service payment	**2,285**	3,029
Provision for untaken annual leave	**8,453**	4,149
Provision for reinstatement costs *(Note (a))*	**18,407**	19,455
Accrued listing expenses	**—**	77
Other accrued expenses	**26,236**	13,812
Payables for purchase of property, plant and equipment	**2,427**	7,820
Others payables	**632**	59
	80,111	85,364
Less: non-current portion		
— Provision for reinstatement costs *(Note (a))*	**(15,009)**	(13,227)
Current portion	**65,102**	72,137

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 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
At the beginning of the year	**19,455**	18,464
Additional provision during the year	**2,236**	3,626
Settlement	**(219)**	(2,635)
Disposal of subsidiaries	**(3,065)**	—
At the end of the year	**18,407**	19,455

12. SHARE CAPITAL

(a) Authorised:

	2019		2018	
	Number of shares	**Nominal value** *HK$'000*	Number of shares	Nominal value *HK$'000*
At beginning of the year	**4,000,000,000**	**400,000**	3,800,000	380
Increase in authorised share capital *(Note (i))*	**—**	**—**	3,996,200,000	399,620
At end of the year	**4,000,000,000**	**400,000**	4,000,000,000	400,000

(b) Issued and fully paid:

	2019 Number of shares	**2019 Nominal value** *HK$'000*	2018 Number of shares	2018 Nominal value *HK$'000*
At beginning of the year	**800,000,000**	**80,000**	10	—
Capitalisation issue of shares *(Note (ii))*	**—**	**—**	599,999,990	60,000
Shares issued pursuant to the global offering *(Note (iii))*	**—**	**—**	200,000,000	20,000
At end of the year	**800,000,000**	**80,000**	800,000,000	80,000

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 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**").

(iii) 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

Following the outbreak of Coronavirus Disease 2019 ("**the COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented in Hong Kong, including suspension of school, work from home practice, encouraged social distancing, restrictions and controls over the inbound and outbound travelling and heightening of hygiene and epidemic prevention requirements in restaurants.

The Group's business is adversely affected by the COVID-19 outbreak. In February 2020, "Mou Mou Club" and "On-Yasai" restaurants were closed for at least two weeks due to public concern cast by confirmed COVID-19 cases in relation to the potential risk of infection associated with aerosol transmission from hot pot dining. In late March 2020, new measures and requirements specific to catering business in Hong Kong have also been imposed by directions issued by the Secretary for Food and Health, which among other things, limited the seating capacity to no more than 50% at any time for our catering premises, required a distance of at least 1.5 metres to be ensured between tables, and limited to 4 persons that may be seated together in each table. These new directions were effective from 28 March 2020 for a period of 14 days and are subject to adjustments by the government from time to time in view of the latest development of the disease.

Subsequent to 31 December 2019 and up to the date of this announcement, the Group noted a decrease in revenue on an overall basis as compared to the same period in 2019. The Group has been proactively negotiating with landlords on rent concession and reduction, and adjusted the operating hours of the restaurant outlets and roster of staff members in order to optimise staff and other operating costs.

In preparing this set of consolidated financial statements, the Group tested property, plant and equipment and right-of-use assets for impairment and relevant provision for impairment was made. In performing this assessment, the Group determined the value-in-use by estimating the present value of future cash flows of the cash-generating-units ("**CGUs**") based on the conditions as at 31 December 2019. As at 31 December 2019, the carrying values of property, plant and equipment and right-of-use assets are HK$126,710,000 and HK$227,331,000 respectively. In the impairment test on property, plant and equipment and right-of-use assets to be performed in 2020, COVID-19 outbreak and its impact on the present value of estimated future cash flows of the CGUs will be considered.

Up to the date on which this set of consolidated financial statements were authorised for issue, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the Group's performance in 2020 and is currently unable to estimate the quantitative impacts to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

As at 31 December 2019, the Group operated two Cantonese restaurants under two self-owned brands in Hong Kong, namely, *"LHGrand (敘福樓金閣)"* and *"Pot Master (煲仔王)"*; and 36 Asian restaurants under two self-owned brands, namely, *"Mou Mou Club (牛涮鍋)"* and *"Peace Cuisine (和平飯店)"*, and four franchised brands, namely *"Gyu-Kaku (牛角)"*, *"Gyu-Kaku Jinan-Bou (牛角次男坊)"*, *"On-Yasai (溫野菜)"* 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	
	2019	2018
Cantonese cuisine restaurants		
— Self-owned brands	**2**	5
Asian cuisine restaurants		
— Self-owned brands	**14**	13
— Franchised brands	**22**	21
Sub-total of Asian restaurants:	**36**	34
Total:	**38**	39

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 0.2%, or approximately HK$1.7 million, from approximately HK$1,004.1 million for the year ended 31 December 2018 to approximately HK$1,005.8 million for the year ended 31 December 2019. The slight increase in the Group's overall revenue was due to the slight increase in revenue from its total restaurant operations, whereas increase in revenue from Asian cuisine restaurants — franchised brands and self-owned brands had offset the decrease in revenue from Cantonese cuisine restaurants. The revenue from Cantonese cuisine restaurants decreased significantly by approximately HK$124.6 million or approximately 45.6%, from approximately HK$273.6 million to HK$149.0 million, as the Group disposed three Cantonese cuisine restaurants on 30 April 2019. Revenue from Asian cuisine restaurants — franchised brands increased by approximately HK$92.0 million or approximately 19.4% during the year ended 31 December 2019 as compared with the year ended 31 December 2018. The revenue from Asian cuisine restaurants — franchised brands as a percentage of the Group's revenue increased from approximately 47.2% for the year ended 31 December 2018 to approximately 56.3% for the year ended 31 December 2019. Revenue from Asian cuisine restaurants — self-owned brands increased by approximately HK$35.7 million or approximately 14.9% during the year ended 31 December 2019 as compared with the year ended 31 December 2018.

	For the year ended 31 December			
	2019		2018	
	Revenue	**% of total Revenue**	Revenue	% of total Revenue
	HK$'000	***(%)***	*HK$'000*	*(%)*
Cantonese cuisine restaurants				
— Self-owned brands	**148,972**	**14.8**	273,624	27.3
Asian cuisine restaurants				
— Self-owned brands	**275,764**	**27.4**	240,036	23.9
— Franchised brands	**566,354**	**56.3**	474,329	47.2
Sub-total of restaurant operations	**991,090**	**98.5**	987,989	98.4
Sale of food ingredients	**14,686**	**1.5**	16,116	1.6
Total	**1,005,776**	**100.0**	1,004,105	100.0

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 1.7%, or approximately HK$4.9 million, from approximately HK$287.9 million for the year ended 31 December 2018 to approximately HK$292.8 million for the year ended 31 December 2019. The increase was in line with the increase in revenue during the year ended 31 December 2019. The cost of food and beverages as a percentage of revenue remained relatively stable at approximately 29.1% for the year ended 31 December 2019 (2018: 28.7%).

Staff costs

The Group's staff costs slightly decreased by approximately 0.8%, or approximately HK$2.5 million, from approximately HK$303.9 million for the year ended 31 December 2018 to approximately HK$301.4 million for the year ended 31 December 2019. Such decrease was primarily due to the decreased salary and wages during the year ended 31 December 2019 as we disposed three Cantonese cuisine restaurants on 30 April 2019. The staff costs as a percentage of revenue remained relatively stable at 30.0% for the year ended 31 December 2019 (2018: 30.3%).

Property rentals and related expenses

The Group's property rentals and related expenses decreased by approximately 59.5%, or approximately HK$107.9 million, from approximately HK$181.5 million for the year ended 31 December 2018 to approximately HK$73.6 million for the year ended 31 December 2019. Such decrease was mainly attributable to the initial adoption of HKFRS 16 during the year ended 31 December 2019 and that only lease payments associated with short-term leases and variable lease payments that do not meet the definition of a liability for the Group as lessee (i.e. contingent rent) were included in property rentals and related expenses for the year.

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 due to the expenses incurred in preparation for the Listing. There were no such expenses incurred for the year ended 31 December 2019.

Loss/profit for the year

Profit for the year ended 31 December 2019 decreased by approximately 132.0%, or approximately HK$46.4 million, from profit of approximately HK$35.2 million for the year ended 31 December 2018 to loss of approximately HK$11.3 million for the year ended 31 December 2019. The decrease in profit was mainly attributable to the challenging business environment during the year ended 31 December 2019, which posed significant negative impact on the overall business operation and also inevitably led to the closure and suspension of certain restaurants of the Group during the year, and provision for impairment of property, plant and equipment, financial assets and/or right-of-use assets in respect of these restaurants and certain underperforming restaurants of the Group during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business with internally generated cash flows and proceeds received from the Listing. As at 31 December 2019, the Group had short term bank deposits of approximately HK$132.4 million (2018: approximately HK$148.0 million) and cash and cash equivalents of approximately HK$130.8 million (2018: approximately HK$142.3 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 2019, the Group's total current assets and current liabilities were approximately HK$313.8 million (2018: approximately HK$371.1 million) and approximately HK$290.0 million (2018: approximately HK$147.4 million) respectively, while the current ratio was about 1.1 times (2018: about 2.5 times). As a result of the adoption of HKFRS 16, the Group recognised the commitments under operating leases for future periods as lease liabilities, whereas, under the previous accounting standard, no such liabilities were required to be recorded. In this connection, the recorded net current assets, and hence the current ratio, were lower.

As at 31 December 2019, the gearing ratio of the Group was not applicable as it had no outstanding interest-bearing bank borrowings. The gearing ratio equals total interest-bearing bank borrowings divided by total equity and multiplied by 100%.

SIGNIFICANT INVESTMENTS

As at 31 December 2019, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Reference is made to the announcement of the Company dated 23 April 2019. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined therein.

During the year ended 31 December 2019, LHG Chinese Catering Limited, a wholly-owned subsidiary of the Company, has disposed the entire issued shares in Fameco (H.K.) Limited, The Banqueting House (TST) Co. Limited, The China House (KF) Limited, each being a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company and the Sale Loans at the Consideration of HK$28,500,000.

Upon completion of the Disposal, the Group recorded an unaudited gain on the Disposal of approximately HK$13,101,000. Such gain is recognised based on the Consideration from the Disposal of HK$28,500,000 minus the net liabilities of the Disposal Companies as at the Completion Date of approximately HK$5,431,000 and the Sale Loan of approximately HK$20,831,000.

Save as disclosed above, the Group has no material acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2019.

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not pledge any assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 930 employees (2018: 1,041 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 2019. As at 31 December 2019, 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 2019, 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 COVID-19 outbreak in early 2020 will undermine catering businesses in Hong Kong, and we expect the outbreak would continue to adversely affect our business significantly in the remaining of the year. Furthermore, the remnant issues since 2019, such as the macro risks arising from ongoing international trade negotiations, import tariff changes implemented by countries and challenges alongside geopolitical uncertainties, would still be posing challenges to both local business environment and consumer confidence in the industry and affecting the outlook for 2020. In view of the above, our business and financial performance in 2020 is enveloped by a multitude of uncertainties and macro risks.

In the face of numerous obstacles in 2020, the Group has been and will continue to be proactively negotiating with landlords on rent concession and reduction, and adjusted the operating hours of the restaurant outlets and roster of staff members in order to optimise staff and other operating costs. Heightening of hygiene and epidemic prevention requirements, which are of vital importance, will also be kept strictly in place.

The management of the Group will remain dedicated to weathering the storm and will approach the remainder of the year with caution and market responsiveness and closely monitor the latest developments in order to make flexible business and strategy adjustment in a timely manner to minimise any potential unfavourable impacts on our businesses.

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 during the year ended 31 December 2019 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") of the Company will be held on Thursday, 18 June 2020. The notice of AGM, which constitutes part of the circular to the shareholders of the Company (the "**Shareholders**"), will be sent together with the 2019 annual report in due course.

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 Monday, 15 June 2020 to Thursday, 18 June 2020, 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 Friday, 12 June 2020.

FINAL DIVIDEND

The Board did not propose a final dividend for the year ended 31 December 2019.

Together with an interim dividend in respect of the six months ended 30 June 2019 of HK4.96 cents per share and a special dividend of HK5.00 cents per share, the dividends in aggregate for the year ended 31 December 2019 amounted to HK9.96 cents per share.

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.

During the year ended 31 December 2019, 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 the senior management. Taking into account the continuation of the implementation of the 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 year ended 31 December 2019.

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 for the year ended 31 December 2019.

AUDIT COMMITTEE

The Board has established an audit committee of the Company (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 the management of the Group, have reviewed the consolidated annual results of the Group for the year ended 31 December 2019.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 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 2019 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 2019 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 ***Prof, JP***
Chairman

Hong Kong, 30 March 2020

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