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LHGROUP

叙福樓集團

LH GROUP LIMITED

叙福樓集團有限公司

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

SUPPLEMENTAL ANNOUNCEMENT TO 2019 ANNUAL REPORT

Reference is made to the annual report of LH Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 (“**FY2019**”) (the “**2019 Annual Report**”). Unless otherwise defined herein, capitalised terms herein shall have the same meanings as those defined in the 2019 Annual Report.

In addition to the information disclosed in the 2019 Annual Report, the Company would like to provide the further information in relation to (i) the unutilised net proceeds as at 31 December 2019 from the IPO in 2018; and (ii) impairment on property, plant and equipment (“**PPE**”) and right-of-use assets (“**ROU**”) of HK\$20.2 million and HK\$48.4 million respectively in FY2019 as follows:

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the IPO on 30 May 2018 after deducting share issuance expenses and listing expenses (the “**Net Proceeds**”) was approximately HK\$178,610,000. As at 31 December 2019, the Company had used approximately HK\$80,867,000 of the Net Proceeds for the purposes as set out in the prospectus dated 15 May 2018 (the “**Prospectus**”), representing approximately 45.3% of the Net Proceeds.

Use of Net Proceeds	Actual Net Proceeds HK\$'000	Amount utilised as at 31 December 2019 HK\$'000	Unutilised Net Proceeds HK\$'000	Expected timeline for utilisation of the unutilised Net Proceeds
Opening a total of eight restaurants under our self-owned brands				
— One Cantonese cuisine restaurant (<i>note</i>)	14,830	—	14,830	On or before 31 December 2022
— Seven Asian cuisine restaurants (<i>note</i>)	45,232	19,278	25,954	On or before 31 December 2022
Opening 19 restaurants under franchised brands	100,659	43,700	56,959	On or before 31 December 2022
Additional working capital, strategic investment and other general corporate purposes	17,889	17,889	—	—
Total	178,610	80,867	97,743	

Note:

“Peace Cuisine” brand has been classified from “Cantonese cuisine — self-owned brands” to “Asian cuisine — self-owned brands” as management had realigned the Group’s business strategy. Accordingly, the category under which “Peace Cuisine” belonged to was reclassified and the respective use of proceeds have been reclassified from “Cantonese cuisine restaurant” to “Asian cuisine restaurant” to conform with the segment presentation.

UNUTILISED NET PROCEEDS

By gradually implementing its business strategy of continuously developing of the brand portfolio, the Group has been expanding its restaurant network in Hong Kong, while the Net Proceeds from the Listing allocated for such purpose has been utilised accordingly. In light of the persistently uncertain business environment and the outbreak of the novel coronavirus (“**COVID-19**”) pandemic, barring any unforeseen situations beyond the Group’s control, it is expected that the unutilised Net Proceeds of approximately HK\$97.7 million for the opening of new restaurants under our self-owned brands and franchised brands as at 31 December 2019 to be fully utilised on or before 31 December 2022.

Other details relating to the use of Net Proceeds were set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus. The revised expected timeline for utilising the Net Proceeds is based on the best estimation of the future market conditions made by the Group with reference to the then prevailing market condition which might be subject to changes in accordance with the change in market conditions from time to time. It is considered that the revised expected timeline for the unutilised Net Proceeds will not have material adverse impact on operations of the Group.

IMPAIRMENT ON PPE AND ROU

As disclosed in note 13(a)&(b) to the consolidated financial statements in 2019 Annual Report, the Company reported an impairment on PPE and ROU of HK\$20.2 million and HK\$48.4 million for FY2019 respectively.

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group operates restaurant outlets on leased properties with lease terms ranging from 2 to 6 years. The Group regards each individual restaurant as a separately identifiable cash-generating-unit (“**CGU**”) and performed impairment assessments on each of the CGU with impairment indicators by considering the recoverable amount of such assets at restaurant level. As at 31 December 2019, the Group’s management identified certain restaurants which were loss making and estimated corresponding recoverable amounts of their PPE and ROU.

Key inputs to the determination of the recoverable amount over the remaining lease period includes annual revenue growth and pre-tax discount rate. As at 31 December 2019, the annual revenue growth used by each restaurant outlet in Hong Kong is ranging from -15% to 3% for the remaining lease period. The pre-tax discount rate used to determine the recoverable amounts is approximately 10.5%.

The recoverable amounts of the CGUs are determined based on value-in-use calculations, which are higher than the fair value less costs of disposal calculations. The value-in-use calculations covering a period of the remaining lease term were lower than the carrying amounts of the CGUs. Accordingly, the Group recognised an impairment of PPE of HK\$20.2 million and ROU of HK\$48.4 million for FY2019.

The information contained in this supplemental announcement does not affect other information contained in the 2019 Annual Report and save as disclosed above, all other information in the 2019 Annual Report remains unchanged.

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

Hong Kong, 31 August 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 Prof, JP as independent non-executive Directors.