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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2018 (the “**Period**”):

- the Group (as defined hereinafter) recorded unaudited revenue of approximately HK\$465.7 million, representing an increase of approximately 22.3% as compared to approximately HK\$380.7 million for the corresponding period ended 30 June 2017 (the “**Last Corresponding Period**”);
- the Group recorded earnings before interest, tax, depreciation and amortization (“**EBITDA**”) excluding one-off listing expenses incurred of approximately HK\$37.8 million for the Period, representing an increase of approximately 10.5% as compared to approximately HK\$34.2 million for the Last Corresponding Period;
- the Group recorded an unaudited profit attributable to the shareholders of the Company of approximately HK\$3.0 million, representing a decrease of approximately 57.1% as compared to approximately HK\$7.0 million for the Last Corresponding Period;
- the Group recorded unaudited basic earnings per share of approximately HK0.48 cents, representing a decrease of approximately 59.0% as compared to HK1.17 cents for the Last Corresponding Period;
- The board (the “**Board**”) of directors (the “**Directors**”) does not recommend the payment of interim dividend.

RESULTS

The Board of LH Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2018, together with the comparative figures for the previous year as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	465,682	380,737
Other income and gains		2,270	1,277
Cost of food and beverages		(130,076)	(104,897)
Staff costs		(151,418)	(125,719)
Depreciation and amortisation		(25,350)	(18,696)
Property rentals and related expenses		(86,902)	(70,835)
Fuel and utility expenses		(13,818)	(11,056)
Advertising and marketing expenses		(6,837)	(4,815)
Other operating expenses		(41,115)	(30,482)
Listing expenses		(8,027)	(4,016)
Finance income		720	182
Profit before taxation	5	5,129	11,680
Income tax expense		(2,110)	(2,653)
Profit and total comprehensive income for the period		<u>3,019</u>	<u>9,027</u>
Attributable to:			
Shareholders of the Company		3,019	7,027
Non-controlling interests		—	2,000
		<u>3,019</u>	<u>9,027</u>
Earnings per share			
Basic and diluted	8	<u>HK0.48 cents</u>	<u>HK1.17 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		133,159	125,789
Investment property		733	745
Intangible assets		3,293	3,530
Rental and utilities deposits	10	49,323	57,800
Prepayments for property, plant and equipment	10	5,674	—
Deferred income tax assets		15,980	12,768
		<u>208,162</u>	<u>200,632</u>
CURRENT ASSETS			
Inventories		24,287	25,884
Trade receivables	10	13,963	12,682
Prepayments, deposits and other receivables	10	34,894	33,527
Tax recoverable		4,244	4,244
Cash and cash equivalents		255,471	69,990
		<u>332,859</u>	<u>146,327</u>
Total assets		<u>541,021</u>	<u>346,959</u>
EQUITY			
Equity and reserves attributable to the shareholders of the Company			
Share capital		80,000	—
Share premium		122,781	—
Reserves		175,524	201,502
Total equity		<u>378,305</u>	<u>201,502</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	11	14,721	14,825
Deferred income tax liabilities		2,154	2,141
		<u>16,875</u>	<u>16,966</u>
CURRENT LIABILITIES			
Trade payables	11	38,861	35,787
Other payables and accruals	11	96,650	87,755
Current income tax liabilities		10,330	4,949
		<u>145,841</u>	<u>128,491</u>
Total liabilities		<u><u>162,716</u></u>	<u><u>145,457</u></u>
Total equity and liabilities		<u><u>541,021</u></u>	<u><u>346,959</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)	Attributable to shareholders of the Company					Non-	Total
	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Retained Earnings <i>HK\$'000</i>	Other Reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>	Controlling Interests <i>HK\$'000</i>	
Balance as at 1 January 2018	—	—	173,883	27,619	201,502	—	201,502
Profit and total comprehensive income for the period	—	—	3,019	—	3,019	—	3,019
Transactions with shareholders							
Dividends (<i>Note 9</i>)	—	—	(28,997)	—	(28,997)	—	(28,997)
Capitalisation issue	60,000	(60,000)	—	—	—	—	—
Shares issued pursuant to the initial public offering (the “ IPO ”)	20,000	200,000	—	—	220,000	—	220,000
Transaction costs attributable to the IPO	—	(17,219)	—	—	(17,219)	—	(17,219)
Balance as at 30 June 2018	<u>80,000</u>	<u>122,781</u>	<u>147,905</u>	<u>27,619</u>	<u>378,305</u>	<u>—</u>	<u>378,305</u>

(Unaudited)	Attributable to shareholders of the Company					Non-	Total
	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Retained Earnings <i>HK\$'000</i>	Other Reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>	Controlling Interests <i>HK\$'000</i>	
Balance as at 1 January 2017	—	—	186,739	32,808	219,547	40,168	259,715
Profit and total comprehensive income for the period	—	—	7,027	—	7,027	2,000	9,027
Transactions with shareholders							
Dividends (<i>Note 9</i>)	—	—	(33,748)	—	(33,748)	—	(33,748)
Dividend declared to non-controlling interests	—	—	—	—	—	(5,778)	(5,778)
Investment from non-controlling interests	—	—	—	—	—	1,980	1,980
Acquisition of non-controlling interests	—	—	—	(26,670)	(26,670)	(32,660)	(59,330)
Deemed distributions to the then shareholders of the Company	—	—	—	(78,115)	(78,115)	(3,730)	(81,845)
Capital contribution by the then shareholders of the Company	—	—	—	99,990	99,990	—	99,990
Balance as at 30 June 2017	<u>—</u>	<u>—</u>	<u>160,018</u>	<u>28,013</u>	<u>188,031</u>	<u>1,980</u>	<u>190,011</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	41,525	26,691
Interest received	1	119
Hong Kong profits tax (paid)/refunded, net	(480)	17
Net cash flows generated from operating activities	41,046	26,827
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(36,260)	(28,049)
Proceeds from disposal of property, plant and equipment	—	182
Repayment from a director	—	1,068
Interest received	2	63
Net cash flows used in investing activities	(36,258)	(26,736)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	220,000	—
Listing expenses paid	(10,819)	(712)
Interest received	509	—
Repayments to shareholders	—	(42,770)
Dividend paid	(28,997)	(33,748)
Dividend paid to non-controlling interests	—	(5,778)
Investment from non-controlling interests	—	1,980
Acquisition of non-controlling interests	—	(59,330)
Deemed distribution to the then shareholders of the Company	—	(70,037)
Capital contribution by shareholders of the Company	—	99,990
Net cash flows generated from/(used in) financing activities	180,693	(110,405)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	185,481	(110,314)
Cash and cash equivalents at the beginning of the period	69,990	216,358
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	255,471	106,044

NOTES

1. GENERAL INFORMATION

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

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

The unaudited condensed consolidated interim financial information is presented in Hong Kong dollars (“**HK\$**”), unless otherwise stated, and has been approved for issue by the Board on 27 August 2018.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The Group’s unaudited condensed consolidated interim financial information should be read in conjunction with the Company’s prospectus dated on 15 May 2018 (the “**Prospectus**”).

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates. In preparing this unaudited consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Prospectus.

3. Accounting policies

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Group's Prospectus, except for the adoption of the following amended Hong Kong Financial Reporting Standards (“**HKFRSs**”) and HKASs (collectively “**new HKFRSs**”) which are effective for accounting periods beginning on or after 1 January 2018.

The following new HKFRSs are mandatory for the first time for the financial year beginning 1 January 2018, but have no material effect on the Groups' reported results and financial position for the current and prior accounting periods:

- HKFRS 9 (2014), Financial Instruments.
- HKFRS 15, Revenue from Contracts with Customers.
- HKAS 40 (Amendment), Investment Property.
- Annual Improvements to HKFRSs 2014–2016 Cycle published in March 2017 by HKICPA.

The Groups have not early adopted any new HKFRSs that are not yet effective for the current accounting period.

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:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Restaurant operations	457,586	370,594
Sale of food ingredients	8,096	10,143
	465,682	380,737

(b) Segment information

The Directors, who are the chief operating decision-maker of the Group, review 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 of 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) Chinese cuisine — self-owned brands | Operation of Chinese restaurants under the self-established “Banqueting House”, “China Hall”, “Peace Cuisine” and “Pot Master” brands, offering Chinese cuisine and wedding reception services |
| (b) Asian cuisine — franchised brands | Operation of Asian cuisine restaurants under the franchised “Gyu-Kaku”, “On-Yasai” and “Yoogane” brands |
| (c) Asian cuisine — self-owned brands | Operation of Asian cuisine restaurants under self-owned brands, including “Mou Mou Club”, “Hotpot PNP”, and “Sushi Dai” |
| (d) Sale of food ingredients | Sale of food ingredients to related parties and external third parties |

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

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

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

The major operating entities of the Group are domiciled in Hong Kong. All of the Group's revenue are derived in Hong Kong. As at 30 June 2018 and 31 December 2017, all of non-current assets of the Group are located in Hong Kong.

An analysis of the Group's revenue, profit before taxation and depreciation and amortisation for the periods ended 30 June 2018 and 2017 and segment assets and liabilities as at 30 June 2018 and 31 December 2017 is as follows:

(Unaudited)	For the six months ended 30 June 2018				Total HK\$'000
	Chinese restaurants — self-owned brands HK\$'000	Asian cuisine — franchised brands HK\$'000	Asian cuisine — self-owned brands HK\$'000	Sale of food ingredients HK\$'000	
Segment revenue					
Revenue	148,593	204,990	104,003	77,113	534,699
Inter-segment revenue	—	—	—	(69,017)	(69,017)
External revenue	<u>148,593</u>	<u>204,990</u>	<u>104,003</u>	<u>8,096</u>	<u>465,682</u>
Segment profit	<u>7,684</u>	<u>25,272</u>	<u>5,948</u>	<u>1,726</u>	<u>40,630</u>
Segment profit includes					
Depreciation and amortisation	<u>(5,815)</u>	<u>(11,630)</u>	<u>(7,102)</u>	<u>—</u>	<u>(24,547)</u>
Segment profit					40,630
Unallocated depreciation and amortisation					(803)
Unallocated cost					(35,418)
Unallocated finance income					<u>720</u>
Profit before taxation					<u>5,129</u>
As at 30 June 2018					
Segment assets	<u>62,823</u>	<u>115,190</u>	<u>59,434</u>	<u>38,761</u>	<u>276,208</u>
Segment liabilities	<u>(33,041)</u>	<u>(56,342)</u>	<u>(19,649)</u>	<u>(12,269)</u>	<u>(121,301)</u>

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

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)
Segment assets	276,208
Unallocated assets	<u>264,813</u>
	<u><u>541,021</u></u>

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

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)
Segment liabilities	121,301
Unallocated liabilities	<u>41,415</u>
	<u><u>162,716</u></u>

(Unaudited)	For the six months ended 30 June 2017				
	Chinese	Asian	Asian	Sale of food ingredients	Total
	restaurants — self-owned brands HK\$'000	cuisine — franchised brands HK\$'000	cuisine — self-owned brands HK\$'000		
Segment revenue					
Revenue	134,321	143,873	92,400	67,124	437,718
Inter-segment revenue	—	—	—	(56,981)	(56,981)
External revenue	<u>134,321</u>	<u>143,873</u>	<u>92,400</u>	<u>10,143</u>	<u>380,737</u>
Segment profit	<u>5,962</u>	<u>19,140</u>	<u>12,436</u>	<u>1,701</u>	<u>39,239</u>
Segment profit includes					
Depreciation and amortisation	<u>(3,752)</u>	<u>(8,049)</u>	<u>(5,386)</u>	<u>—</u>	<u>(17,187)</u>
Segment profit					39,239
Unallocated depreciation and amortisation					(1,509)
Unallocated cost					(26,232)
Unallocated finance income					<u>182</u>
Profit before taxation					<u>11,680</u>
As at 31 December 2017					
Segment assets	<u>91,413</u>	<u>70,082</u>	<u>56,572</u>	<u>35,757</u>	<u>253,824</u>
Segment liabilities	<u>39,700</u>	<u>38,542</u>	<u>17,675</u>	<u>12,569</u>	<u>108,486</u>

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

	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Segment assets	253,824
Unallocated assets	<u>93,135</u>
	<u><u>346,959</u></u>

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

	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Segment liabilities	108,486
Unallocated liabilities	<u>36,971</u>
	<u><u>145,457</u></u>

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	25,101	18,579
Depreciation of investment property	12	12
Amortisation of intangible assets	237	105
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	63,486	51,814
— Contingent rental	3,916	2,590
	67,402	54,404
Employee benefit expenses		
Wages and salaries	133,987	110,036
Discretionary bonuses	5,762	4,976
Retirement benefit scheme contributions	6,271	5,227
Staff welfare	3,272	5,757
Provision for/(reversal of provision for) untaken annual leave	762	(400)
Provision for long service payment	1,364	123
	151,418	125,719
Auditors' remuneration		
— Audit services	1,603	375
— Non-audit services	338	275
Loss on disposal of property, plant and equipment	—	7
Foreign exchange differences, net	3	13

6. FINANCE INCOME

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	720	182

7. TAXATION

Hong Kong profits tax has been provided on the estimated assessable profits at a rate of 16.5% for the periods ended 30 June 2018 and 2017.

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
Current income tax	5,861	4,371
Deferred income tax	(3,751)	(1,718)
	<u>2,110</u>	<u>2,653</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of approximately HK\$3,019,000 (period ended 30 June 2017: HK\$7,027,000) and the weighted average of approximately 635,359,000 ordinary shares (period ended 30 June 2017: 600,000,000) in issue during the interim period. The weighted average number of ordinary shares in issue during the period ended 30 June 2018 and 2017 is calculated based on the assumption that 600,000,000 shares were in issue at the beginning of the periods, taking into consideration the effect of share split and the capitalisation issue.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to shareholders of the Company (HK\$'000)	3,019	7,027
Weighted average number of ordinary shares in issue ('000)		
Share split and capitalisation issue ('000)	600,000	600,000
Effect of shares issued under IPO ('000)	35,359	—
	<u>635,359</u>	<u>600,000</u>
Earnings per share	<u>HK0.48 cents</u>	<u>HK1.17 cents</u>

(b) Diluted

Diluted earnings per share for the periods ended 30 June 2018 and 2017 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

9. DIVIDEND

Dividends disclosed during the periods ended 30 June 2018 and 2017 represented dividends declared and paid or payable by the Group to the shareholders of the Company based on their then respective shareholdings.

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividend paid	<u>28,997</u>	<u>33,748</u>

The dividend was declared and paid before the Listing.

10. TRADE AND OTHER RECEIVABLES

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.

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
External customers	<u>13,963</u>	<u>12,682</u>

An ageing analysis of the trade receivables as at 30 June 2018 and 31 December 2017, based on the invoice date, is as follows:

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Within 30 days	13,293	8,882
31–60 days	648	1,856
61–180 days	19	1,944
Over 180 days	3	—
	<u>13,963</u>	<u>12,682</u>

There was no recent history of default in respect of the Group's debtors. Based on past experience, management believes that no impairment allowance is necessary in respect of the past due balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. No impairment loss was recognised by the Group at 30 June 2018 and 31 December 2017.

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Prepayments	18,761	13,702
Prepaid listing expenses	—	5,449
Rental and utilities deposits	67,453	72,006
Other receivables	3,677	170
	<u>89,891</u>	<u>91,327</u>
Less: non-current portion		
— Rental and utilities deposits	(49,323)	(57,800)
— Prepayments for property, plant and equipment	(5,674)	—
Current portion	<u>34,894</u>	<u>33,527</u>

As at 30 June 2018 and 31 December 2017, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

The maximum exposure to credit risk as at 30 June 2018 and 31 December 2017 was the carrying value of each class of receivable mentioned above. The Group did not hold any collateral as security.

11. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

An ageing analysis of the trade payables as at 30 June 2018 and 31 December 2017, based on the invoice date, is as follows:

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Within 30 days	29,966	26,238
31–60 days	7,018	8,025
61–180 days	1,877	877
Over 180 days	—	647
	38,861	35,787

The trade payables are non-interest-bearing with payment terms of 30–60 days in general.

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Advances from customers	12,915	14,802
Rent payable	1,113	707
Provision for effective rental	14,065	11,628
Accrued employee benefit expenses	19,781	20,016
Provision for long service payment	2,432	1,657
Provision for untaken annual leave	4,810	4,071
Provision for reinstatement costs	19,727	18,464
Accrued listing expenses	9,398	5,670
Deferred revenue	12,024	10,043
Other accrued expenses	9,275	10,367
Payables for purchase of property, plant and equipment	5,771	5,086
Other payables	60	69
	111,371	102,580
Less: non-current portion		
— Provision for reinstatement costs	(14,721)	(14,825)
Current portion	96,650	87,755

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a top full service multi-brand restaurant group with 35 restaurants in Hong Kong specialising in Chinese and Asian (in particular Japanese) cuisine.

As at 30 June 2018, the Group operated six Chinese restaurants under five self-owned brands in Hong Kong, namely, “The Banqueting House (御苑皇宴)”, “China Hall (御苑)”, “LHGrand (叙福樓金閣)”, “Pot Master (煲仔王)” and “Peace Cuisine (和平飯店)”; and 29 Asian restaurants under two self-owned brands, namely, “Mou Mou Club (牛涮鍋)” and “Hotpot PNP (熱血一流)”, and three franchised brands, namely “Gyu-Kaku (牛角)”, “On-Yasai (溫野菜)” and “Yoogane (柳氏家)”, which serve 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 (mainly at the lower end of this market segment) 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 30 June	
	2018	2017
Chinese cuisine restaurants		
— Self-owned brands	6	6
Asian cuisine restaurants		
— Self-owned brands	11	12
— Franchised brands	18	15
<i>Sub-total of Asian restaurants:</i>	29	27
Total:	35	33

For the Period, a restaurant under our self-owned brand, Mou Mou Club, and two restaurants under our franchised brand, Gyu-Kaku, commenced operation; a restaurant under our self-owned brand, The Banqueting House, ceased operation upon expiry of its tenancy; and a restaurant under our franchised brand, Gyu-Kaku, ceased operation for rebranding purpose at the same premise.

As disclosed in the section headed “Future plans and use of proceeds” in the Prospectus, 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 22.3%, or approximately HK\$84.9 million, from approximately HK\$380.7 million for the Last Corresponding Period to approximately HK\$465.7 million for the Period. The increase in revenue was primarily due to the increase in revenue from restaurant operations, which is primarily driven by the approximately HK\$61.1 million or approximately 42.5% increase in revenue from our Asian cuisine restaurants — franchised brands during the Period as compared to the Last Corresponding Period. The revenue from Asian cuisine restaurants — franchised brands as a percentage of the Group's revenue increased from approximately 37.8% for the Last Corresponding Period to approximately 44.0% for the Period.

	For the six months ended 30 June			
	2018		2017	
	Revenue <i>HK\$'000</i>	% of total Revenue (%)	Revenue <i>HK\$'000</i>	% of total Revenue (%)
Chinese cuisine restaurants				
— Self-owned brands	148,593	31.9	134,321	35.3
Asian cuisine restaurants				
— Self-owned brands	104,003	22.3	92,400	24.2
— Franchised brands	204,990	44.1	143,873	37.8
Sub-total of restaurant operations	457,586	98.3	370,594	97.3
Sale of food ingredients	8,096	1.7	10,143	2.7
Total	465,682	100.0	380,737	100.0

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 24.0%, or approximately HK\$25.2 million, from approximately HK\$104.9 million for the Last Corresponding Period to approximately HK\$130.1 million for the Period. The increase was in line with the increase in revenue during the Period. The cost of food and beverages as a percentage of revenue remained stable at approximately 27.9% for the Period (Last Corresponding Period: 27.6%).

Staff costs

The Group's staff costs increased by approximately 20.4%, or approximately HK\$25.7 million, from approximately HK\$125.7 million for the Last Corresponding Period to approximately HK\$151.4 million for the Period. Such increase was primarily due to the increased administrative and operation headcount, and the increased salary and wages in order to cope with our increased business operation and business expansion plan during the Period.

Property rentals and related expenses

The Group's property rentals and related expenses increased by approximately 22.7%, or approximately HK\$16.1 million, from approximately HK\$70.8 million for the Last Corresponding Period to approximately HK\$86.9 million for the Period. Such increase was mainly attributable to an increase in the monthly rentals of the Group's leased properties upon renewal of the relevant leases and new properties leased. As a result, the property rentals and related expenses as a percentage of revenue slightly increased from approximately 18.6% for the Last Corresponding Period to approximately 18.7% for the Period.

Listing expenses

Listing expenses comprise professional and other expenses in relation to our Listing. The Group's listing expenses amounted to approximately HK\$8.0 million for the Period as compared to approximately HK\$4.0 million for the Last Corresponding Period due to the expenses incurred during the Period in preparation for the Listing.

Profit for the period

Profit for the Period decreased by approximately 66.6%, or approximately HK\$6.0 million, from approximately HK\$9.0 million for the Last Corresponding Period to approximately HK\$3.0 million for the Period. Such decrease was mainly due to the combined effect of (i) increase in listing expenses incurred for the Period by approximately HK\$4.0 million as compared to the Last Corresponding Period; and (ii) other factors discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business with internally generated cash flows and proceeds received from the Listing. As at 30 June 2018, the Group's cash and cash equivalents were approximately HK\$255.5 million, representing an increase of approximately 265.0%, or approximately HK\$185.5 million, as compared with approximately HK\$70.0 million as at 31 December 2017. 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 30 June 2018, the Group's total current assets and current liabilities were approximately HK\$332.9 million (as at 31 December 2017: approximately HK\$146.3 million) and approximately HK\$145.8 million (as at 31 December 2017: approximately HK\$128.5 million) respectively, while the current ratio was about 2.3 times (as at 31 December 2017: about 1.1 times).

As at 30 June 2018, the Group did not have any bank borrowings.

As at 30 June 2018, the Group did not have any finance lease payables.

As at 30 June 2018, the gearing ratio of the Group was not applicable as it had no outstanding debt. The gearing ratio equals total debts divided by total equity and multiplied by 100%.

SIGNIFICANT INVESTMENTS

As at 30 June 2018, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Period, the Group had no material acquisition or disposal of subsidiaries, associates or joint ventures.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred since the end of the Period and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 980 employees (as at 31 December 2017: 1,052 employees). The remuneration of the employees is determined by reference to prevailing market terms and in accordance with the performance, qualification and experience of each individual employee.

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

No share option was granted during the Period. As at 30 June 2018, the Company had no outstanding share option under the Share Option Scheme.

FOREIGN EXCHANGE EXPOSURE

Most of the transactions of the Group are denominated in Hong Kong dollar and the Group is not exposed to any significant foreign exchange exposure.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities.

PROSPECTS

The Group's strategic objective is to continue solidifying our market position as a top multi-brand full service restaurant group in Hong Kong and enhancing market penetration into different customer segments. We also aim to extend our geographical reach to the People's Republic of China (the “**PRC**”) and other Asia Pacific countries riding on our commercial success in Hong Kong. To achieve such objective, the Group will continue to implement the following strategies:

- Expanding our restaurant network and enhancing our market penetration in Hong Kong;
- Strengthening our multi-brand business model with new additions to our brand portfolio;
- Tapping into the PRC and other Asia Pacific countries; and
- Enhancing operational efficiency and cost savings.

Please also see the section headed “Business — Our business strategies” of the Prospectus for further details.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of at least 25% of the issued Shares from the Listing Date to the date of this announcement.

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 30 June 2018, the Company had used approximately HK\$37,100,000 of the Net Proceeds for the purposes as set out in the Prospectus, representing approximately 20.8% of the Net Proceeds.

Use of Net Proceeds	Approximately percentage of total amount	Actual Net Proceeds <i>HK\$'000</i>	Amount utilised as at 30 June 2018 <i>HK\$'000</i>	Unused Net Proceeds <i>HK\$'000</i>
Opening a total of eight restaurants under our self-owned brands				
— Four Chinese restaurants	20%	35,222	—	35,222
— Four Asian cuisine restaurants	14%	24,840	1,408	23,432
Opening 19 restaurants under franchised brands	56%	100,659	17,803	82,856
Additional working capital, strategic investment and other general corporate purposes	10%	17,889	17,889	—
Total	100%	178,610	37,100	141,510

INTERIM DIVIDEND

The Board does not propose any interim dividend for the six months ended 30 June 2018.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (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 of Hong Kong Limited as its own code of corporate governance.

For the period from the Listing Date to 30 June 2018, save for the deviation from code provision A.2.1 of the CG Code, the Company has 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 our Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of our Group. He has also been chiefly responsible for our Group’s operations as he directly supervises our senior management. Taking into account the continuation of the implementation of our business plans, our Directors (including our independent non-executive Directors) consider Mr. Wong is the best candidate for both positions and the present arrangements are beneficial and in the interests of our Company and our Shareholders as a whole. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced and high-calibre individuals. Our Board currently comprises three executive Directors (including Mr. Wong) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the period from the Listing Date to 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities from the Listing Date to 30 June 2018.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely Ms. Hung Lo Shan Lusan (Chairman), 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 our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

The Audit Committee, together with management, has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018.

PUBLICATION OF THE INTERIM RESULTS AND 2018 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.lhgroup.com.hk), and the 2018 interim 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.

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

Hong Kong, 27 August 2018

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