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 2020

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2020	2019	% Change
	HK$ million	*HK$ million*	
Revenue	**404.2**	520.0	(22.3)%
Profit attributable to the shareholders of the Company	**24.3**	39.7	(38.9)%
Earnings per share Basic and diluted *(HK cents)*	**3.03**	4.96	(38.9)%

RESULTS

The board (the "**Board**") of directors (the "**Directors**") 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 2020 (the "**Period**"), 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 2020

		Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	4	**404,234**	520,018
Other income and gains	5	**42,315**	2,825
Cost of food and beverages		**(125,089)**	(150,344)
Staff costs		**(128,276)**	(161,581)
Depreciation and amortisation		**(18,712)**	(22,521)
Depreciation of right-of-use assets		**(47,730)**	(45,376)
Property rentals and related expenses		**(18,085)**	(44,618)
Fuel and utility expenses		**(9,842)**	(13,558)
Advertising and marketing expenses		**(3,230)**	(6,154)
Other operating expenses		**(40,592)**	(45,352)
Provision for impairment of property, plant and equipment		**(9,111)**	(1,243)
Provision for impairment of right-of-use assets		**(19,417)**	—
Gain on disposal of subsidiaries		**—**	13,101
Finance income	6	**2,584**	2,419
Finance costs	6	**(2,804)**	(3,097)
Profit before taxation	8	**26,245**	44,519
Income tax expense	7	**(1,990)**	(4,892)
Profit and total comprehensive income for the period		**24,255**	39,627
Attributable to:			
Shareholders of the Company		**24,255**	39,669
Non-controlling interests		**—**	(42)
		24,255	39,627
Earnings per share			
Basic and diluted	9	**HK3.03 cents**	HK4.96 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Note	**As at 30 June 2020** *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**104,586**	126,710
Right-of-use assets		**164,565**	227,331
Investment property		**683**	695
Intangible assets		**5,734**	6,015
Rental and utilities deposits	11	**47,139**	43,216
Prepayments for property, plant and equipment	11	**2,728**	575
Deferred income tax assets		**26,144**	23,875
		351,579	428,417
CURRENT ASSETS			
Inventories		**24,592**	24,517
Trade receivables	11	**5,419**	6,156
Prepayments, deposits and other receivables	11	**17,506**	18,277
Tax recoverable		**—**	1,737
Short term bank deposits		**128,499**	132,352
Cash and cash equivalents		**193,396**	130,759
		369,412	313,798
Total assets		**720,991**	742,215
EQUITY			
Equity and reserves attributable to the shareholders of the Company			
Share capital		**80,000**	80,000
Share premium		**122,781**	122,781
Reserves		**95,747**	71,492
Total equity		**298,528**	274,273

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

	Note	**As at 30 June 2020 HK$'000 (Unaudited)**	As at 31 December 2019 HK$'000 (Audited)
LIABILITIES			
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	12	**15,622**	15,009
Lease liabilities		**123,246**	157,100
Deferred income tax liabilities		**5,839**	5,839
		144,707	177,948
CURRENT LIABILITIES			
Trade payables	12	**47,650**	44,774
Other payables and accruals	12	**85,509**	65,102
Contract liabilities		**38,467**	22,952
Lease liabilities		**94,764**	131,472
Tax payable		**11,366**	25,694
		277,756	289,994
Total liabilities		**422,463**	467,942
Total equity and liabilities		**720,991**	742,215

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)	Share Capital HK$'000	Share Premium HK$'000	Retained Earnings HK$'000	Other Reserves HK$'000	Total HK$'000	Non-Controlling Interests HK$'000	Total HK$'000
	Attributable to shareholders of the Company						
Balance as at 1 January 2020	**80,000**	**122,781**	**43,873**	**27,619**	**274,273**	**—**	**274,273**
Profit and total comprehensive income for the Period	**—**	**—**	**24,255**	**—**	**24,255**	**—**	**24,255**
Balance as at 30 June 2020	**80,000**	**122,781**	**68,128**	**27,619**	**298,528**	**—**	**298,528**

(Unaudited)	Share Capital HK$'000	Share Premium HK$'000	Retained Earnings HK$'000	Other Reserves HK$'000	Total HK$'000	Non-Controlling Interests HK$'000	Total HK$'000
	Attributable to shareholders of the Company						
Balance as at 31 December 2018	80,000	122,781	180,097	27,619	410,497	49	410,596
Change in accounting policy	—	—	(4,902)	—	(4,902)	—	(4,902)
Restated balance as at 1 January 2019	80,000	122,781	175,195	27,619	405,595	49	405,644
Profit and total comprehensive income for the period	—	—	39,669	—	39,669	(42)	39,627
Transactions with shareholders							
Dividends *(Note 10)*	—	—	(43,200)	—	(43,200)	—	(43,200)
Acquisition of non-controlling interests	—	—	—	—	—	(7)	(7)
Balance as at 30 June 2019	80,000	122,781	171,664	27,619	402,064	—	402,064

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.

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 2020.

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 "**Listing Rules**"). The Group's unaudited condensed consolidated interim financial information should be read in conjunction with the Company's Annual Report for the year ended 31 December 2019 (the "**2019 Annual Report**").

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 2019 Annual Report, except as stated below.

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 2019 Annual Report, except for the adoption of the following amended Hong Kong Financial Reporting Standards ("**HKFRSs**") and HKASs (collectively "**new HKFRSs**") as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Government grants

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

New and amended standards adopted by the Group

The Group has early adopted *Amendment to HKFRS 16 - COVID-19-Related Rent Concessions* retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions of approximately HK$8,319,000 have been accounted for as negative variable lease payments and recognised in property rentals and related expenses in the consolidated statement of comprehensive income for the six months ended 30 June 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

A number of new or amended standards became applicable for the Period. Except for the Amendment to HKFRS 16 set out above, the Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

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	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Recognised at a point in time:		
Restaurant operations	**401,832**	512,493
Sale of food ingredients	**2,402**	7,525
	404,234	520,018

(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)	Cantonese cuisine — self-owned brands	Operation of Cantonese cuisine restaurants under the self-established "*Pot Master*" and "*LHGrand*" brands, offering Cantonese cuisine
(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 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 unallocated finance income and unallocated cost are 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, dividend payable, 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 2020 and 31 December 2019, 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 six months ended 30 June 2020 and 2019 and segment assets and liabilities as at 30 June 2020 and 31 December 2019 is as follows:

	For the six months ended 30 June 2020				
(Unaudited)	**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	**40,421**	**266,737**	**94,674**	**47,178**	**449,010**
Inter-segment revenue	**—**	**—**	**—**	**(44,776)**	**(44,776)**
External revenue	**40,421**	**266,737**	**94,674**	**2,402**	**404,234**
Segment profit/(loss)	**30,619**	**32,826**	**(21,021)**	**639**	**43,063**
Segment profit includes					
Depreciation and amortisation	**(1,617)**	**(9,117)**	**(6,861)**	**—**	**(17,595)**
Depreciation of right-of-use assets	**(1,104)**	**(28,415)**	**(16,067)**	**—**	**(45,586)**
Provision for impairment	**—**	**(9,770)**	**(18,758)**	**—**	**(28,528)**
Segment profit					**43,063**
Unallocated depreciation and amortisation					**(1,117)**
Unallocated depreciation of right-of-use assets					**(2,144)**
Unallocated cost					**(15,336)**
Unallocated finance income					**1,862**
Unallocated finance costs					**(83)**
Profit before taxation					**26,245**
	As at 30 June 2020				
Segment assets	**24,431**	**180,374**	**96,367**	**76,577**	**377,749**
Segment liabilities	**(10,359)**	**(204,260)**	**(113,891)**	**(22,985)**	**(351,495)**

(Unaudited)	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*
	For the six months ended 30 June 2019				
Segment revenue					
Revenue	101,919	283,432	127,142	67,914	580,407
Inter-segment revenue	—	—	—	(60,389)	(60,389)
External revenue	101,919	283,432	127,142	7,525	520,018
Segment profit	2,114	50,382	9,580	1,357	63,433
Segment profit includes					
Depreciation and amortisation	(3,909)	(11,489)	(6,159)	—	(21,557)
Depreciation of right-of-use assets	(9,618)	(22,489)	(11,128)	—	(43,235)
Provision for impairment	—	—	(1,243)	—	(1,243)
Segment profit					63,433
Unallocated depreciation and amortisation					(964)
Unallocated depreciation of right-of-use assets					(2,141)
Unallocated cost					(31,179)
Gain on disposal of subsidiaries					13,101
Unallocated finance income					2,340
Unallocated finance costs					(71)
Profit before taxation					44,519
	As at 31 December 2019				
Segment assets	30,982	211,644	126,837	90,501	459,964
Segment liabilities	(47,332)	(220,406)	(126,566)	(24,901)	(419,205)

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

	As at 30 June 2020 *HK$'000* (Unaudited)	As at 31 December 2019 *HK$'000* (Audited)
Segment assets	**377,749**	459,964
Unallocated assets	**343,242**	282,251
	720,991	742,215

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

	As at 30 June 2020 *HK$'000* (Unaudited)	As at 31 December 2019 *HK$'000* (Audited)
Segment liabilities	**351,495**	419,205
Unallocated liabilities	**70,968**	48,737
	422,463	467,942

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Government grants	**13,330**	—
Net gain from lease modification	**26,933**	—
Promotion income from a credit card company	**1,550**	1,400
Sundry income	**502**	1,425
	42,315	2,825

6. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income from bank deposits	**1,795**	2,419
Finance income on financial assets	**789**	—
Finance income	**2,584**	2,419
Finance costs paid for lease liabilities	**(2,804)**	(3,097)

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 2020 and 2019.

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
Current income tax	**4,259**	7,718
Deferred income tax	**(2,269)**	(2,826)
	1,990	4,892

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**18,419**	22,188
Depreciation of right-of-use assets	**47,730**	45,376
Depreciation of investment property	**12**	12
Amortisation of intangible assets	**281**	321
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	**2,260**	17,104
— Contingent rental	**7,627**	6,458
	9,887	23,562
Employee benefit expenses		
Wages and salaries	**112,157**	142,232
Discretionary bonuses	**8,956**	7,724
Retirement benefit scheme contributions	**5,712**	6,584
Staff welfare	**1,886**	3,414
(Reversal of)/provision for untaken annual leave	**(802)**	1,714
Provision for/(reversal of) long service payment	**367**	(87)
	128,276	161,581
Auditors' remuneration		
— Audit services	**1,100**	1,291
— Non-audit services	**532**	303

9. 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 (the "**Shareholders**") of approximately HK$24,255,000 (period ended 30 June 2019: HK$39,669,000) and the weighted average of approximately 800,000,000 ordinary shares in issue during the periods ended 30 June 2020 and 2019.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to the Shareholders *(HK$'000)*	**24,255**	39,669
Weighted average number of ordinary shares in issue *('000)*	**800,000**	800,000
Earnings per share	**HK3.03 cents**	HK4.96 cents

(b) Diluted

Diluted earnings per share for the periods ended 30 June 2020 and 2019 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

10. DIVIDEND

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend declared — nil (2019: HK4.96 cents per share)	**—**	39,680
Special dividend declared — nil (2019: HK5.00 cents per share)	**—**	40,000
	—	79,680

The Board did not propose an interim dividend for the Period.

11. 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 2020	As at 31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
External customers	**5,419**	6,156

An ageing analysis of the trade receivables as at 30 June 2020 and 31 December 2019, based on the invoice date, is as follows:

	As at 30 June 2020	As at 31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**3,977**	5,451
31–60 days	**679**	401
61–180 days	**763**	304
	5,419	6,156

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 as at 30 June 2020 and 31 December 2019.

	As at 30 June 2020 *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
Prepayments	**10,783**	7,852
Rental and utilities deposits	**54,508**	52,549
Other receivables	**2,082**	1,667
	67,373	62,068
Less: non-current portion		
— Rental and utilities deposits	**(47,139)**	(43,216)
— Prepayments for property, plant and equipment	**(2,728)**	(575)
Current portion	**17,506**	18,277

As at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019 was the carrying value of each class of receivable mentioned above. The Group did not hold any collateral as security.

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

An ageing analysis of the trade payables as at 30 June 2020 and 31 December 2019, based on the invoice date, is as follows:

	As at 30 June 2020 *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
Within 30 days	**27,552**	28,452
31–60 days	**19,817**	16,150
61–180 days	**96**	45
Over 180 days	**185**	127
	47,650	44,774

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

	As at 30 June 2020 *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
Rent payable	**3,255**	1,940
Accrued employee benefit expenses	**22,313**	19,731
Provision for long service payment	**2,567**	2,285
Provision for untaken annual leave	**7,478**	8,453
Provision for reinstatement costs	**18,407**	18,407
Deferred government grants	**18,075**	—
Other accrued expenses	**25,317**	26,236
Payables for purchase of property, plant and equipment	**3,087**	2,427
Other payables	**632**	632
	101,131	80,111
Less: non-current portion		
— Provision for reinstatement costs	**(15,622)**	(15,009)
Current portion	**85,509**	65,102

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 30 June 2020, the Group operated two Cantonese restaurants under two self-owned brands in Hong Kong, namely, "*LHGrand (叙福樓金閣)*" 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 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 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	
	2020	2019
Cantonese cuisine restaurants		
— Self-owned brands	**2**	2
Asian cuisine restaurants		
— Self-owned brands	**14**	13
— Franchised brands	**22**	21
Sub-total of Asian restaurants:	**36**	34
Total:	**38**	36

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately 22.3%, or approximately HK$115.8 million, from approximately HK$520.0 million for the six months ended 30 June 2019 (the "**Last Corresponding Period**") to approximately HK$404.2 million for the Period. The Group's revenue was adversely affected by the COVID-19 outbreak in 2020. "Mou Mou Club" (under Asian cuisine restaurants – self-owned brands) and "On-Yasai" (under Asian cuisine restaurants – franchised brands) 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. Since 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 and the number of persons that may be seated together in each table. In addition to the effect of COVID-19, the significant decrease in revenue from Cantonese cuisine restaurants is also due to the disposal of three Cantonese cuisine restaurants in April 2019.

	For the six months ended 30 June			
	2020		2019	
	Revenue *HK$'000*	**% of total Revenue** *(%)*	Revenue *HK$'000*	% of total Revenue *(%)*
Cantonese cuisine restaurants				
— Self-owned brands	**40,421**	**10.0**	101,919	19.6
Asian cuisine restaurants				
— Self-owned brands	**94,674**	**23.4**	127,142	24.5
— Franchised brands	**266,737**	**66.0**	283,432	54.5
Sub-total of restaurant operations	**401,832**	**99.4**	512,493	98.6
Sale of food ingredients	**2,402**	**0.6**	7,525	1.4
Total	**404,234**	**100.0**	520,018	100.0

Other income and gains

The Group's other income and gains increased significantly by approximately 1,397.9%, or approximately HK$39.5 million, from approximately HK$2.8 million for the Last Corresponding Period to approximately HK$42.3 million for the Period. The increase was due to one-off government grants of approximately HK$13.3 million and net gain from lease modification of approximately HK$26.9 million for the Period.

Cost of food and beverages

The Group's cost of food and beverages decreased by approximately 16.8%, or approximately HK$25.3 million, from approximately HK$150.3 million for the Last Corresponding Period to approximately HK$125.1 million for the Period. The decrease was in line with the decrease in revenue during the Period. The cost of food and beverages as a percentage of revenue increased slightly from 28.9% for the Last Corresponding Period to 30.9% for the Period.

Staff costs

The Group's staff costs decreased by approximately 20.6%, or approximately HK$33.3 million, from approximately HK$161.6 million for the Last Corresponding Period to approximately HK$128.3 million for the Period. Such decrease was primarily due to the receipt of government grant of approximately HK$7.2 million during the Period and the disposal of three Cantonese cuisine restaurants on 30 April 2019. The staff costs as a percentage of revenue remained relatively stable at 31.7% for the Period (Last Corresponding Period: 31.1%).

Property rentals and related expenses

The Group's property rentals and related expenses decreased by approximately 59.5%, or approximately HK$26.5 million, from approximately HK$44.6 million for the Last Corresponding Period to approximately HK$18.1 million for the Period. Such decrease was mainly attributable to most leases were accounted for under HKFRS 16 as right-of-use assets and lease liabilities instead of property rentals expenses during the Period, while some leases were short-term leases at the initial adoption of HKFRS 16 for the Last Corresponding Period. In addition, rent concessions from certain landlords resulting in more affordable rental rates were accounted for during the Period while there was no such concession for the Last Corresponding Period.

Profit for the Period

Profit for the Period decreased by approximately 38.8%, or approximately HK$15.4 million, from approximately HK$39.6 million for the Last Corresponding Period to approximately HK$24.3 million for the Period. Such decrease was mainly due to the combined effect of (i) provision for impairment of property, plant and equipment and right-of-use assets of a total of approximately HK$28.5 million for the Period; (ii) an one-off gain on disposal of subsidiaries of approximately HK$13.1 million for the Last Corresponding Period while no such gain for the Period; and (iii) other factors discussed above.

Excluding one-off and non-recurring items, i.e. government grants, gain from lease modification, provision for impairment and gain on disposal of subsidiaries, the core profit from our operation for the Period was approximately HK$7.3 million, decreased by approximately 77.5%, or approximately HK$25.3 million, from approximately HK$32.7 million for the Last Corresponding Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business with internally generated cash flows and proceeds received from the Listing. As at 30 June 2020, the Group had short term bank deposits of approximately HK$128.5 million (as at 31 December 2019: HK$132.4 million) and cash and cash equivalents of approximately HK$193.4 million (as at 31 December 2019: approximately HK$130.8 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 30 June 2020, the Group's total current assets and current liabilities were approximately HK$369.4 million (as at 31 December 2019: approximately HK$313.8 million) and approximately HK$277.8 million (as at 31 December 2019: approximately HK$290.0 million) respectively, while the current ratio was about 1.3 times (as at 31 December 2019: about 1.1 times).

As at 30 June 2020, 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 30 June 2020, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has no material acquisition or disposal of subsidiaries, associates or joint ventures during the Period.

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 2020, the Group had 1,374 employees (as at 31 December 2019: 930 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 Period. As at 30 June 2020, 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 2020, the Group did not have any material contingent liabilities.

PROSPECTS

The outbreak of COVID-19 in early 2020 has significantly undermined catering businesses in Hong Kong, and we expect the combination of regulatory restrictions on social distancing, poor market conditions and weak consumer sentiment 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, seeking more favorable terms with suppliers and strengthening food delivery and takeaway services. The Group has also been actively managing its working capital to ensure that it remains in a healthy liquidity position. Heightening of hygiene and epidemic prevention requirements, which are always 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 for the Period and up to the date of this announcement.

INTERIM DIVIDEND

The Board did not propose an interim dividend for the Period.

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**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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 Period.

AUDIT COMMITTEE

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

The Audit Committee, together with management, has reviewed the unaudited condensed consolidated interim results of the Group for the Period.

PUBLICATION OF THE INTERIM RESULTS AND 2020 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 2020 interim report containing the information required by Appendix 16 to the Listing Rules will be despatched 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 the 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, 27 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.