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LH GROUP

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 2021

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change
	2021	2020	
	HK\$ million	HK\$ million	
Revenue	422.9	404.2	4.6%
Profit attributable to the shareholders of the Company	25.6	24.3	5.7%
Earnings per share Basic and diluted (HK cents)	3.20	3.03	5.7%

Interim dividend in respect of the six months ended 30 June 2021 of HK2.40 cents per share (2020: nil), which represented a dividend payout ratio of approximately 75%.

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 2021 (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 2021

	Note	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	4	422,881	404,234
Other income and gains	5	15,289	42,315
Cost of food and beverages		(133,711)	(125,089)
Staff costs		(135,788)	(128,276)
Depreciation and amortisation		(14,891)	(18,712)
Depreciation of right-of-use assets		(47,190)	(47,730)
Property rentals and related expenses		(19,609)	(18,085)
Fuel and utility expenses		(8,977)	(9,842)
Advertising and marketing expenses		(2,560)	(3,230)
Other operating expenses		(45,338)	(40,592)
Provision for impairment of property, plant and equipment		—	(9,111)
Provision for impairment of right-of-use assets		—	(19,417)
Finance income	6	1,003	2,584
Finance costs	6	(2,285)	(2,804)
Profit before taxation	8	28,824	26,245
Income tax expense	7	(3,186)	(1,990)
Profit and total comprehensive income for the period attributable to the shareholders of the Company		<u>25,638</u>	<u>24,255</u>
Earnings per share			
Basic and diluted	9	<u>HK3.20 cents</u>	<u>HK3.03 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		106,710	106,952
Right-of-use assets		148,037	169,332
Investment property		658	670
Intangible assets		5,074	5,419
Rental and utilities deposits	11	39,001	39,463
Prepayments for property, plant and equipment	11	845	1,805
Deferred income tax assets		27,567	26,040
		<u>327,892</u>	<u>349,681</u>
CURRENT ASSETS			
Inventories		29,182	32,414
Trade receivables	11	4,236	4,962
Prepayments, deposits and other receivables	11	29,231	20,983
Tax recoverable		686	686
Short term bank deposits		102,723	159,623
Cash and cash equivalents		182,942	179,148
		<u>349,000</u>	<u>397,816</u>
Total assets		<u><u>676,892</u></u>	<u><u>747,497</u></u>
EQUITY			
Equity and reserves attributable to the shareholders of the Company			
Share capital		80,000	80,000
Share premium		122,781	122,781
Reserves		132,178	211,820
Total equity		<u>334,959</u>	<u>414,601</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at 30 June 2021

		As at 30 June 2021	As at 31 December 2020
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
LIABILITIES			
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	12	12,484	14,932
Lease liabilities		73,196	95,752
Deferred income tax liabilities		5,155	5,155
		90,835	115,839
CURRENT LIABILITIES			
Trade payables	12	51,440	37,657
Other payables and accruals	12	66,937	59,886
Contract liabilities		27,115	21,819
Lease liabilities		98,525	93,401
Tax payable		7,081	4,294
		251,098	217,057
Total liabilities		341,933	332,896
Total equity and liabilities		676,892	747,497

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)	Attributable to shareholders of the Company				
	Share Capital	Share Premium	Retained Earnings	Other Reserves	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2021	80,000	122,781	184,201	27,619	334,601
Profit and total comprehensive income for the Period	—	—	25,638	—	25,638
Dividends (Note 10)	—	—	(105,280)	—	(105,280)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 30 June 2021	<u>80,000</u>	<u>122,781</u>	<u>104,559</u>	<u>27,619</u>	<u>334,959</u>

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

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 Act 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 190 Elgin Avenue, 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 2021.

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 2020 (the “**2020 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 2020 Annual Report, except as stated below.

Income tax expense is recognised based on management’s estimate of the weighted average effective annual income tax rate expected for the full financial year.

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 2020 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.

New and amended standards adopted by the Group

The following amended standards have been adopted by the Group for the financial period beginning on or after 1 January 2021:

HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform — Phase 2

These amended standards have no material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The Group has adopted *Amendment to HKFRS 16 — COVID-19-Related Rent Concessions* for the financial period beginning on or after 1 January 2021. 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\$2,703,000 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 2021, with a corresponding adjustment to the lease liability.

The Group has not adopted any new or amended standards or interpretations that are not yet effective during the six months ended 30 June 2021.

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 and others in Hong Kong, net of discount. An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Recognised at a point in time:		
Restaurant operations	421,092	401,832
Sale of food ingredients and others	1,789	2,402
	<u>422,881</u>	<u>404,234</u>

(b) Segment information

The Directors, who are the chief operating decision makers 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 and others 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 “ <i>Pot Master</i> ” brand, offering Cantonese cuisine |
| (b) Asian cuisine — franchised brands | Operation of Asian cuisine restaurants under the franchised “ <i>Gyu-Kaku</i> ”, “ <i>On-Yasai</i> ”, “ <i>Gyu-Kaku Jinan-Bou</i> ” and “ <i>Yoogane</i> ” brands |
| (c) Asian cuisine — self-owned brands | Operation of Asian cuisine restaurants under self-owned brands, including “ <i>Mou Mou Club</i> ” and “ <i>Peace Cuisine</i> ” |
| (d) Sale of food ingredients and others | Sale of food ingredients to related parties and external third parties and other business |

Segment revenue and segment profit/(loss) are the measures reported to the Directors for the purpose of resources allocation and performance assessment. Segment profit/(loss), which is a measure of adjusted profit/(loss) before tax, is measured consistently with the Group’s profit/(loss) 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, tax payables and deferred income tax liabilities.

All 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 2021 and 31 December 2020, 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 2021 and 2020 and segment assets and liabilities as at 30 June 2021 and 31 December 2020 is as follows:

(Unaudited)	For the six months ended 30 June 2021				Total HK\$'000
	Cantonese cuisine — self-owned brands HK\$'000	Asian cuisine — franchised brands HK\$'000	Asian cuisine — self-owned brands HK\$'000	Sale of food ingredients and others HK\$'000	
Segment revenue					
Revenue	18,070	304,090	98,932	46,169	467,261
Inter-segment revenue	—	—	—	(44,380)	(44,380)
External revenue	<u>18,070</u>	<u>304,090</u>	<u>98,932</u>	<u>1,789</u>	<u>422,881</u>
Segment profit/(loss)	<u>2,196</u>	<u>47,635</u>	<u>8,222</u>	<u>(842)</u>	<u>57,211</u>
Segment profit includes					
Depreciation and amortisation	<u>(144)</u>	<u>(9,262)</u>	<u>(3,640)</u>	<u>(684)</u>	<u>(13,730)</u>
Depreciation of right-of-use assets	<u>(15)</u>	<u>(31,104)</u>	<u>(13,926)</u>	<u>—</u>	<u>(45,045)</u>
Segment profit					57,211
Unallocated depreciation and amortisation					(1,161)
Unallocated depreciation of right-of-use assets					(2,145)
Unallocated cost					(25,825)
Unallocated finance income					778
Unallocated finance costs					(34)
Profit before taxation					<u>28,824</u>
					As at 30 June 2021
Segment assets	<u>12,988</u>	<u>203,217</u>	<u>76,676</u>	<u>92,838</u>	<u>385,719</u>
Segment liabilities	<u>(7,480)</u>	<u>(195,014)</u>	<u>(73,048)</u>	<u>(17,761)</u>	<u>(293,303)</u>

(Unaudited)	For the six months ended 30 June 2020				
	Cantonese cuisine — self-owned brands <i>HK\$'000</i>	Asian cuisine — franchised brands <i>HK\$'000</i>	Asian cuisine — self-owned brands <i>HK\$'000</i>	Sale of food ingredients and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue					
Revenue	40,421	266,737	94,674	47,178	449,010
Inter-segment revenue	—	—	—	(44,776)	(44,776)
External revenue	<u>40,421</u>	<u>266,737</u>	<u>94,674</u>	<u>2,402</u>	<u>404,234</u>
Segment profit/(loss)	<u>30,619</u>	<u>32,826</u>	<u>(21,021)</u>	<u>639</u>	<u>43,063</u>
Segment profit includes					
Depreciation and amortisation	<u>(1,617)</u>	<u>(9,117)</u>	<u>(6,861)</u>	<u>—</u>	<u>(17,595)</u>
Depreciation of right-of-use assets	<u>(1,104)</u>	<u>(28,415)</u>	<u>(16,067)</u>	<u>—</u>	<u>(45,586)</u>
Provision for impairment	<u>—</u>	<u>(9,770)</u>	<u>(18,758)</u>	<u>—</u>	<u>(28,528)</u>
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					<u>26,245</u>

As at 31 December 2020

Segment assets	<u>11,942</u>	<u>200,949</u>	<u>90,422</u>	<u>82,532</u>	<u>385,845</u>
Segment liabilities	<u>(6,473)</u>	<u>(182,898)</u>	<u>(87,368)</u>	<u>(10,899)</u>	<u>(287,638)</u>

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

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Segment assets	385,719	385,845
Unallocated assets	<u>291,173</u>	<u>361,652</u>
	<u>676,892</u>	<u>747,497</u>

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

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Segment liabilities	293,303	287,638
Unallocated liabilities	<u>48,630</u>	<u>45,258</u>
	<u>341,933</u>	<u>332,896</u>

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Government grants	9,727	13,330
Net gain from lease modification due to early termination on leases	—	26,933
Sponsorship income	2,163	—
Over-provision of legal costs	1,468	—
Promotion income from a credit card company	1,600	1,550
Sundry income	<u>331</u>	<u>502</u>
	<u>15,289</u>	<u>42,315</u>

6. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from bank deposits	747	1,795
Finance income on financial assets	256	789
	<u>1,003</u>	<u>2,584</u>
Finance costs paid for lease liabilities	<u>(2,285)</u>	<u>(2,804)</u>

7. TAXATION

Hong Kong profits tax has been provided on the estimated assessable profits at a rate of 16.5% for the six months ended 30 June 2021 and 2020.

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
Current income tax	4,713	4,259
Deferred income tax	(1,527)	(2,269)
	<u>3,186</u>	<u>1,990</u>

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	14,534	18,419
Depreciation of right-of-use assets	47,190	47,730
Depreciation of investment property	12	12
Amortisation of intangible assets	345	281
COVID-19 related rent concessions	(2,703)	(8,319)
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	523	2,260
— Contingent rental	6,147	7,627
	6,670	9,887
Employee benefit expenses		
Wages and salaries	117,509	112,157
Discretionary bonuses	12,025	8,956
Retirement benefit scheme contributions	5,535	5,712
Staff welfare	1,641	1,886
Reversal of untaken annual leave	(1,010)	(802)
Provision for long service payment	88	367
	135,788	128,276
Auditors' remuneration		
— Audit services	1,050	1,100
— Non-audit services	329	532

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\$25,638,000 (six months ended 30 June 2020: HK\$24,255,000) and the 800,000,000 ordinary shares in issue during the six months ended 30 June 2021 and 2020.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to the Shareholders (<i>HK\$'000</i>)	25,638	24,255
Number of ordinary shares in issue (<i>'000</i>)	<u>800,000</u>	<u>800,000</u>
Earnings per share	<u>HK3.20 cents</u>	<u>HK3.03 cents</u>

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2021 and 2020 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

10. DIVIDEND

A final dividend for the year ended 31 December 2020 of HK13.16 cents per ordinary share, totalling HK\$105,280,000, was declared by the Board on 29 March 2021 and approved by the Shareholders at the annual general meeting of the Company held on 3 June 2021, which was paid on Friday, 25 June 2021.

An interim dividend in respect of the six months ended 30 June 2021 of HK2.40 cents per ordinary share, totalling HK\$19,200,000, was proposed by the Board on 27 August 2021. The proposed dividend is not reflected as dividend payable in the consolidated statement of financial position.

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, to which a credit period of 30 days is granted by the Group.

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
External customers	<u>4,236</u>	<u>4,962</u>

An ageing analysis of the trade receivables as at 30 June 2021 and 31 December 2020, based on the invoice date, is as follows:

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Within 30 days	3,610	3,237
31–60 days	356	105
61–180 days	270	1,620
	<u>4,236</u>	<u>4,962</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 did not hold any collateral over these balances. No impairment loss was recognised by the Group as at 30 June 2021 and 31 December 2020.

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Prepayments	13,760	7,881
Rental and utilities deposits	53,667	51,013
Other receivables	1,650	3,357
	<u>69,077</u>	<u>62,251</u>
Less: non-current portion		
— Rental and utilities deposits	(39,001)	(39,463)
— Prepayments for property, plant and equipment	(845)	(1,805)
Current portion	<u>29,231</u>	<u>20,983</u>

As at 30 June 2021 and 31 December 2020, 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 2021 and 31 December 2020 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 2021 and 31 December 2020, based on the invoice date, is as follows:

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Within 30 days	33,975	19,436
31–60 days	17,242	18,012
61–180 days	11	94
Over 180 days	212	115
	<u>51,440</u>	<u>37,657</u>

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

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Rent payable	2,472	1,545
Accrued employee benefit expenses	22,325	18,280
Provision for long service payment	1,110	994
Provision for untaken annual leave	7,225	8,235
Provision for reinstatement costs	18,429	18,105
Other accrued expenses	23,134	23,555
Payables for purchase of property, plant and equipment	4,094	3,472
Other payables	632	632
	<u>79,421</u>	<u>74,818</u>
Less: non-current portion		
— Provision for reinstatement costs	<u>(12,484)</u>	<u>(14,932)</u>
Current portion	<u>66,937</u>	<u>59,886</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

As at 30 June 2021, the Group operated one Cantonese restaurant under a self-owned brand “*Pot Master (煲仔王)*”; and 39 Asian restaurants under two self-owned brands, namely, “*Mou Mou Club (牛瀾鍋)*” 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	
	2021	2020
Cantonese cuisine restaurants		
— Self-owned brands	1	2
Asian cuisine restaurants		
— Self-owned brands	13	14
— Franchised brands	26	22
<i>Sub-total of Asian restaurants:</i>	<u>39</u>	<u>36</u>
Total:	<u><u>40</u></u>	<u><u>38</u></u>

FINANCIAL REVIEW

Revenue

The Group's revenue for the Period was affected by the outbreak of COVID-19 pandemic (the "**Pandemic**") and mandatory social distancing measures, such as seating restrictions, reduced operating hours and other measures which aim to contain the Pandemic. Despite the negative impact brought by the Pandemic, the Group's revenue increased by approximately 4.6%, or approximately HK\$18.6 million, from approximately HK\$404.2 million for the six months ended 30 June 2020 (the "**Last Corresponding Period**") to approximately HK\$422.9 million for the Period.

The increase in revenue was mainly due to (i) the increase of number of franchised brands of Asian cuisine restaurants owned by the Group; and (ii) the gradual recovery of catering industry with the better control of the Pandemic in Hong Kong in the first half of 2021.

The revenue from Asian cuisine restaurants — franchised brands increased by approximately HK\$37.4 million or approximately 14.0%, from approximately HK\$266.7 million to approximately HK\$304.1 million. Asian cuisine restaurants — franchised brands remained as the main pillar of revenue, constituting approximately 71.9% of the total revenue for the Period (Last Corresponding Period: 66.0%).

The revenue from Asian cuisine restaurants — self-owned brands increased by approximately HK\$4.3 million or approximately 4.5%, from approximately HK\$94.7 million to approximately HK\$98.9 million.

However, due to the combined effect of the Pandemic and the closure of one Cantonese cuisine restaurant in September 2020, the revenue from Cantonese cuisine restaurant decreased from approximately HK\$40.4 million for the Last Corresponding Period to approximately HK\$18.1 million for the Period.

Revenue by business segments is set out below:

	For the six months ended 30 June		2020	
	2021	% of total	2020	% of total
	Revenue	Revenue	Revenue	Revenue
	HK\$'000	(%)	HK\$'000	(%)
Cantonese cuisine restaurants				
— Self-owned brands	18,070	4.3	40,421	10.0
Asian cuisine restaurants				
— Self-owned brands	98,932	23.4	94,674	23.4
— Franchised brands	304,090	71.9	266,737	66.0
Sub-total of restaurant operations	421,092	99.6	401,832	99.4
Sale of food ingredients and others	1,789	0.4	2,402	0.6
Total	422,881	100.0	404,234	100.0

Other income and gains

The Group's other income and gains decreased significantly by approximately 63.9%, or approximately HK\$27.0 million, from approximately HK\$42.3 million for the Last Corresponding Period to approximately HK\$15.3 million for the Period. The decrease was mainly due to the net gain from lease modification of approximately HK\$26.9 million recorded for the Last Corresponding Period while there was no such gain for the Period.

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 6.9%, or approximately HK\$8.6 million, from approximately HK\$125.1 million for the Last Corresponding Period to approximately HK\$133.7 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 increased slightly from approximately 30.9% for the Last Corresponding Period to approximately 31.6% for the Period.

Staff costs

The Group's staff costs increased by approximately 5.9%, or approximately HK\$7.5 million, from approximately HK\$128.3 million for the Last Corresponding Period to approximately HK\$135.8 million for the Period. Such increase was primarily due to the receipt of subsidies of approximately HK\$7.2 million under the Employment Support Scheme of the Anti-Epidemic Fund launched by the Hong Kong Government for the Last Corresponding Period, while there were no such subsidies received for the Period. The staff costs as a percentage of revenue remained relatively stable at approximately 32.1% for the Period (Last Corresponding Period: approximately 31.7%).

Profit for the Period

Profit for the Period increased by approximately 5.7%, or approximately HK\$1.4 million, from approximately HK\$24.3 million for the Last Corresponding Period to approximately HK\$25.6 million for the Period. Such increase was mainly due to the combined effect of provision for impairment of property, plant and equipment and right-of-use assets of a total of approximately HK\$28.5 million made for the Last Corresponding Period, while no impairment was made for the Period, which is partially offset by the decrease in HK\$27.0 million in other income discussed above.

Excluding one-off and non-recurring items, i.e. government grants, gain from lease modification, provision for impairment and over-provision of legal costs, the core profit from our operation for the Period was approximately HK\$17.6 million, representing a significant increase by approximately 140.2%, or approximately HK\$10.3 million, from approximately HK\$7.3 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 2021, the Group had short term bank deposits of approximately HK\$102.7 million (as at 31 December 2020: approximately HK\$159.6 million) and cash and cash equivalents of approximately HK\$182.9 million (as at 31 December 2020: approximately HK\$179.1 million). Most bank deposits and cash were denominated in HK\$. 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 2021, the Group's total current assets and current liabilities were approximately HK\$349.0 million (as at 31 December 2020: approximately HK\$397.8 million) and approximately HK\$251.1 million (as at 31 December 2020: approximately HK\$217.1 million) respectively, while the current ratio was about 1.4 times (as at 31 December 2020: about 1.8 times).

As at 30 June 2021, the gearing ratio of the Group was not applicable as it had no outstanding interest-bearing bank borrowings. The gearing ratio is calculated by total interest-bearing bank borrowings divided by total equity and multiplied by 100%.

SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group did not have 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.

CHARGES ON GROUP ASSETS

As at 30 June 2021, the Group did not have any charges on assets.

CAPITAL STRUCTURE

There was no change in the capital structure of the Group during the six months ended 30 June 2021. The capital of the Group only comprises ordinary shares.

EVENTS AFTER THE REPORTING PERIOD

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 1,434 employees (as at 31 December 2020: 1,344 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 Group offered induction training when a staff member joins the Group and regular training as to work safety, work procedures and other work related ad hoc trainings are given to staff members regularly.

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 2021, 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 dollars and the Group is not exposed to any significant foreign exchange exposure. The Company did not engage in hedging of foreign currency during the Period.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any material contingent liabilities.

PROSPECTS

Owing to the outbreak of COVID-19 since 2020 and the stringent and mandatory social distancing measures in place earlier this year, the revenue of the Group has been severely impacted and recorded operating loss from January to early February 2021. However, thanks to the constant support from our customers, the Group showed strong resilience and agility in the remaining months of the first half of 2021 since mid-February 2021, during which the anti-Pandemic measures began to be gradually relieved, which had rapidly recouped the revenue and have been bringing considerable profits to the Group in the overall for the first half of 2021.

Looking forward, the management expects that the overall vaccination progress on a mass scale both locally and globally and the consumption voucher scheme recently commenced will help facilitate the speedy recovery of the local consumption market and bring significant opportunity to the business growth of the Group. Moreover, after almost two years of Pandemic along with various difficulties and challenges, the Group became stronger through hardship, making breakthrough in all aspects such as cost control, management quality and crisis management, with its overall capacity reaching the highest point since its listing and continues to improve. The management is confident that the Group is better positioned than ever before to overcome the difficulties that may arise in the future.

As of the Latest Practicable Date (24 August 2021), the overall vaccination rate of the first dose for the Group's permanent frontline staff reached 74.83% (the overall vaccination rate in Hong Kong was 58.70% on the same date), and is increasing in preparation for the eventuality of the fifth wave of the Pandemic.

The Group will also launch its new self-owned brand "Wing Wah Allday" and introduce a new franchised brand "The Matcha Tokyo" in the second half of the year, to provide diverse dining experiences to customers and further expand the Group's business presence to traditional local cuisines restaurants and fine casual cafés.

With a robust financial position and brand layout of the Group, provided that the Pandemic situation in Hong Kong would not deteriorate in 2021, the management remains optimistic on the financial performance of the Group in the second half of 2021 and believes that the Group will achieve further growth.

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 under the Listing Rules.

INTERIM DIVIDEND

Having considered the economic outlook, the Group's financial position, its future expansion plans and other factors, the Board has declared payment of an interim dividend of HK2.40 cents per share for the Period (Last Corresponding Period: Nil), totalling HK\$19,200,000, payable to the Shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on Wednesday, 15 September 2021. The interim dividend will be paid to the Shareholders on or around Monday, 27 September 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the interim dividend, the Register of Members will be closed from Monday, 13 September 2021 to Wednesday, 15 September 2021, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend, 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, 10 September 2021.

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, which is explained in the paragraph below, the Board considers that the Company has in all material respects 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 chairperson and the chief executive officer should be separate 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 of the Group. Taking into account the experience and expertise of Mr. Wong in the catering industry and 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 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 two executive Directors (including Mr. Wong) and three independent non-executive Directors and therefore has a 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 standards 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 has held meetings to discuss the financial reporting process, internal control and risk management system of the Group, including the review of the unaudited interim results and the unaudited interim condensed consolidated financial information of the Group for the Period.

The unaudited condensed consolidated interim results of the Group for the Period have not been audited or reviewed by the Company's auditor but have been reviewed by the Audit Committee and the management of the Company.

PUBLICATION OF THE INTERIM RESULTS AND 2021 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 2021 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 according to the requirements under the Listing Rules.

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, BBS, JP
Chairman

Hong Kong, 27 August 2021

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