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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 2022

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2022	2021
	HK\$ million	HK\$ million
Revenue	400.0	422.9
Profit attributable to the shareholders of the Company	6.8	25.6
Earnings per share		
Basic and diluted (HK cents)	0.85	3.20

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 2022 (the “**Period**”), together with the comparative figures of the corresponding period in the previous year as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Note	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	4	400,023	422,881
Other income and gains	5	20,206	15,289
Cost of food and beverages		(129,249)	(133,711)
Staff costs		(130,985)	(135,788)
Depreciation and amortisation		(19,824)	(14,891)
Depreciation of right-of-use assets, rental and related expenses	6	(75,614)	(66,799)
Fuel and utility expenses		(9,806)	(8,977)
Advertising and marketing expenses		(3,281)	(2,560)
Other operating expenses		(47,785)	(45,338)
Finance income	7	470	1,003
Finance costs	7	(3,225)	(2,285)
Profit before taxation	9	930	28,824
Income tax credit/(expense)	8	5,858	(3,186)
Profit and total comprehensive income for the period attributable to the shareholders of the Company		<u>6,788</u>	<u>25,638</u>
Earnings per share			
Basic and diluted	10	<u>HK0.85 cents</u>	<u>HK3.20 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		As at 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		131,567	121,694
Right-of-use assets		190,443	171,531
Investment property		633	645
Intangible assets		4,868	5,226
Rental and utilities deposits	12	37,176	40,585
Prepayments for property, plant and equipment	12	1,035	1,133
Deferred income tax assets		34,437	27,326
		<hr/> 400,159 <hr/>	<hr/> 368,140 <hr/>
CURRENT ASSETS			
Inventories		36,027	49,719
Trade receivables	12	6,383	6,358
Prepayments, deposits and other receivables	12	55,812	34,238
Tax recoverable		43	43
Short term bank deposits		79,248	83,414
Cash and cash equivalents		201,181	241,947
		<hr/> 378,694 <hr/>	<hr/> 415,719 <hr/>
Total assets		<hr/> 778,853 <hr/>	<hr/> 783,859 <hr/>
EQUITY			
Equity and reserves attributable to the shareholders of the Company			
Share capital		80,000	80,000
Share premium		122,781	122,781
Reserves		135,804	177,416
		<hr/> 338,585 <hr/>	<hr/> 380,197 <hr/>
Total equity		<hr/> 338,585 <hr/>	<hr/> 380,197 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2022

	<i>Note</i>	As at 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
LIABILITIES			
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	13	14,063	12,991
Lease liabilities		111,716	93,493
Deferred income tax liabilities		6,888	6,888
		<u>132,667</u>	<u>113,372</u>
CURRENT LIABILITIES			
Trade payables	13	52,242	76,859
Other payables and accruals	13	97,181	83,172
Contract liabilities		37,810	34,785
Lease liabilities		112,633	85,801
Tax payable		7,735	9,673
		<u>307,601</u>	<u>290,290</u>
Total liabilities		<u>440,268</u>	<u>403,662</u>
Total equity and liabilities		<u>778,853</u>	<u>783,859</u>

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 2022	80,000	122,781	149,797	27,619	380,197
Profit and total comprehensive income for the period	—	—	6,788	—	6,788
Dividends (<i>Note 11</i>)	—	—	(48,400)	—	(48,400)
Balance as at 30 June 2022	<u>80,000</u>	<u>122,781</u>	<u>108,185</u>	<u>27,619</u>	<u>338,585</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 2021	80,000	122,781	184,201	27,619	334,601
Profit and total comprehensive income for the period	—	—	25,638	—	25,638
Dividends (<i>Note 11</i>)	—	—	(105,280)	—	(105,280)
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>

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 29 August 2022.

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 2021 (the “**2021 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 2021 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 2021 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 2022:

HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract
Annual Improvements Project (Amendments)	Annual Improvements 2018–2020 Cycle

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 not adopted any new or amended standards or interpretations that are not yet effective during the six months ended 30 June 2022.

Comparative figures

The comparative figures of depreciation of right-of-use assets and property rentals and related expenses have been combined to present in the unaudited condensed consolidated statement of comprehensive income to provide better understanding of the Group’s performance to the reader.

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	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Recognised at a point in time:		
Restaurant operations	397,354	421,092
Sale of food ingredients and others	2,669	1,789
	<u>400,023</u>	<u>422,881</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) Self-owned brands | Operation of restaurants under the self-owned brands including “ <i>Mou Mou Club</i> ”, “ <i>Peace Cuisine</i> ”, “ <i>Wing Wah Allday</i> ”, “ <i>Pot Master</i> ” and “ <i>#HAP Taiwanese Hotpot</i> ” |
| (b) Franchised brands | Operation of restaurants under the franchised “ <i>Gyu-Kaku</i> ”, “ <i>On-Yasai</i> ”, “ <i>Gyu-Kaku Jinan-Bou</i> ”, “ <i>Yoogane</i> ” and “ <i>The Matcha Tokyo</i> ” brands |
| (c) 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 2022 and 31 December 2021, 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 2022 and 2021 and segment assets and liabilities as at 30 June 2022 and 31 December 2021 is as follows:

(Unaudited)	For the six months ended 30 June 2022			
	Self-owned	Franchised	Sale of food	Total
	brands <i>HK\$'000</i>	brands <i>HK\$'000</i>	ingredients and others <i>HK\$'000</i>	
Segment revenue				
Revenue	103,658	293,696	45,957	443,311
Inter-segment revenue	—	—	(43,288)	(43,288)
External revenue	<u>103,658</u>	<u>293,696</u>	<u>2,669</u>	<u>400,023</u>
Segment profit/(loss)	<u>(2,403)</u>	<u>14,898</u>	<u>(514)</u>	<u>11,981</u>
Segment profit includes				
Depreciation and amortisation	<u>(3,803)</u>	<u>(14,685)</u>	<u>(691)</u>	<u>(19,179)</u>
Depreciation of right-of-use assets	<u>(15,500)</u>	<u>(34,650)</u>	<u>—</u>	<u>(50,150)</u>
Segment profit				11,981
Unallocated depreciation and amortisation				(645)
Unallocated depreciation of right-of-use assets				(2,016)
Unallocated cost				(8,393)
Unallocated finance income				285
Unallocated finance costs				<u>(282)</u>
Profit before taxation				<u>930</u>
	As at 30 June 2022			
Segment assets	<u>122,662</u>	<u>254,437</u>	<u>110,811</u>	<u>487,910</u>
Segments liabilities	<u>(105,343)</u>	<u>(259,688)</u>	<u>(9,436)</u>	<u>(374,467)</u>

(Unaudited)	For the six months ended 30 June 2021			
	Self-owned brands <i>HK\$'000</i>	Franchised brands <i>HK\$'000</i>	Sale of food ingredients and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Revenue	117,002	304,090	46,169	467,261
Inter-segment revenue	—	—	(44,380)	(44,380)
External revenue	<u>117,002</u>	<u>304,090</u>	<u>1,789</u>	<u>422,881</u>
Segment profit/(loss)	<u>10,418</u>	<u>47,635</u>	<u>(842)</u>	<u>57,211</u>
Segment profit includes				
Depreciation and amortisation	<u>(3,784)</u>	<u>(9,262)</u>	<u>(684)</u>	<u>(13,730)</u>
Depreciation of right-of-use assets	<u>(13,941)</u>	<u>(31,104)</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				<u>(34)</u>
Profit before taxation				<u>28,824</u>

	As at 31 December 2021			
Segment assets	<u>108,665</u>	<u>241,890</u>	<u>114,072</u>	<u>464,627</u>
Segment liabilities	<u>(94,572)</u>	<u>(226,380)</u>	<u>(34,371)</u>	<u>(355,323)</u>

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

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Segment assets	487,910	464,627
Unallocated assets	290,943	319,232
	<u>778,853</u>	<u>783,859</u>

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

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Segment liabilities	374,467	355,323
Unallocated liabilities	65,801	48,339
	<u>440,268</u>	<u>403,662</u>

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Government grants	17,766	9,727
Sponsorship income	—	2,163
Over-provision of legal costs	—	1,468
Promotion income from a credit card company	1,650	1,600
Sundry income	790	331
	<u>20,206</u>	<u>15,289</u>

6. DEPRECIATION OF RIGHT-OF-USE ASSETS, RENTAL AND RELATED EXPENSES

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	52,166	47,190
Property rentals and related expenses	23,448	19,609
	<u>75,614</u>	<u>66,799</u>

7. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest income from bank deposits	312	747
Finance income on financial assets	158	256
	<u>470</u>	<u>1,003</u>
Finance costs on lease liabilities	<u>(3,225)</u>	<u>(2,285)</u>

8. 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 2022 and 2021.

The major components of the income tax (credit)/expense are as follows:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
Current income tax	1,253	4,713
Deferred income tax	(7,111)	(1,527)
	<u>(5,858)</u>	<u>3,186</u>
Income tax (credit)/expense	<u>(5,858)</u>	<u>3,186</u>

9. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	19,454	14,534
Depreciation of right-of-use assets	52,166	47,190
Depreciation of investment property	12	12
Amortisation of intangible assets	358	345
COVID-19 related rent concessions	(5,709)	(2,703)
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	2,591	523
— Contingent rental	5,490	6,147
	8,081	6,670
Employee benefit expenses		
Wages and salaries	112,897	117,509
Discretionary bonuses	13,099	12,025
Retirement benefit scheme contributions	6,494	5,535
Staff welfare	2,011	1,641
Reversal of untaken annual leave	(4,550)	(1,010)
Provision for long service payment	1,034	88
	130,985	135,788
Auditors' remuneration		
— Audit services	1,100	1,050
— Non-audit services	356	329

10. 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\$6,788,000 (six months ended 30 June 2021: HK\$25,638,000) and the 800,000,000 ordinary shares in issue during the six months ended 30 June 2022 and 2021.

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Profit attributable to the Shareholders (<i>HK\$'000</i>)	6,788	25,638
Number of ordinary shares in issue (<i>'000</i>)	<u>800,000</u>	<u>800,000</u>
Earnings per share	<u><u>HK0.85 cents</u></u>	<u><u>HK3.20 cents</u></u>

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2022 and 2021 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

11. DIVIDEND

A final dividend for the year ended 31 December 2021 of HK6.05 cents per ordinary share, totalling HK\$48,400,000, was declared by the Board on 28 March 2022 and approved by the Shareholders at the annual general meeting of the Company held on 10 June 2022, which was paid on 30 June 2022.

After considering the economic outlook, financial position of the Group, its future expansion plans and other factors, the Board did not propose an interim dividend for the Period.

12. 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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
External customers	<u>6,383</u>	<u>6,358</u>

An ageing analysis of the trade receivables as at 30 June 2022 and 31 December 2021, based on the invoice date, is as follows:

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within 30 days	5,551	5,742
31–60 days	414	192
61–180 days	418	424
	<u>6,383</u>	<u>6,358</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 2022 and 31 December 2021.

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Prepayments	9,590	10,781
Rental and utilities deposits	65,587	63,456
Other receivables	18,846	1,719
	94,023	75,956
Less: non-current portion		
— Rental and utilities deposits	(37,176)	(40,585)
— Prepayments for property, plant and equipment	(1,035)	(1,133)
Current portion	55,812	34,238

As at 30 June 2022 and 31 December 2021, 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 2022 and 31 December 2021 was the carrying value of each class of receivable mentioned above. The Group did not hold any collateral as security. The carrying amounts of deposits and other receivables approximate to their fair values and are denominated in HK\$.

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Trade payables

	As at 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
External suppliers	<u>52,242</u>	<u>76,859</u>

An ageing analysis of the trade payables as at 30 June 2022 and 31 December 2021, based on the invoice date, is as follows:

	As at 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
Within 30 days	33,371	46,165
31–60 days	18,449	30,304
61–180 days	181	210
Over 180 days	<u>241</u>	<u>180</u>
	<u>52,242</u>	<u>76,859</u>

The trade payables are non-interest-bearing with payment terms of 30–60 days in general. The carrying amounts of trade payables approximate to their fair values and are denominated in HK\$.

Other payables and accruals

	As at 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
Rent payable	4,779	3,948
Accrued employee benefit expenses	27,745	27,557
Provision for long service payment	3,083	2,025
Provision for untaken annual leave	6,253	10,803
Provision for reinstatement costs	22,584	20,745
Other accrued expenses	36,791	24,962
Payables for purchase of property, plant and equipment	9,377	5,491
Other payables	632	632
	<hr/> 111,244	<hr/> 96,163
Less: non-current portion		
— Provision for reinstatement costs	(14,063)	(12,991)
	<hr/> 97,181	<hr/> 83,172
Current portion	<hr/> 97,181	<hr/> 83,172

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 2022, the Group operated 16 restaurants under five self-owned brands, namely “*Mou Mou Club (牛瀾鍋)*”, “*Peace Cuisine (和平飯店)*”, “*Wing Wah Allday (永華日常)*”, “*Pot Master (煲仔王)*” and “*#HAP Taiwanese Hotpot (好呷台灣火鍋)*”, and 34 restaurants under five franchised brands, namely “*Gyu-Kaku (牛角)*”, “*Gyu-Kaku Jinan-Bou (牛角次男坊)*”, “*On-Yasai (溫野菜)*”, “*Yoogane (柳氏家)*” and “*The Matcha Tokyo*”, 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	
	2022	2021
Self-owned brands	16	14
Franchised brands	34	26
Total:	50	40

FINANCIAL REVIEW

Revenue

In early 2022, there was an outbreak of the fifth wave of COVID-19 in Hong Kong (the “**pandemic**”) and implementation of stricter dine-in restrictions and social distancing measures by the Hong Kong Government caused a negative impact on the Group’s business. The operation of the Group’s restaurants was also suspended temporarily due to the deteriorating pandemic situation in early 2022, which led to a drop in the Group’s revenue during the Period. Since the social distancing measures began to relax in late April 2022, the Group showed strong resilience and agility, which had rapidly recouped the revenue to the Group for the Period.

The Group’s revenue decreased slightly by approximately 5.4%, or approximately HK\$22.9 million, from approximately HK\$422.9 million for the six months ended 30 June 2021 (the “**Last Corresponding Period**”) to approximately HK\$400.0 million for the Period.

Although there was decrease of comparable restaurants revenue, the increase in the number of restaurants under franchised brands from 26 as at 30 June 2021 to 34 as at 30 June 2022 increased the revenue base, thus the revenue from franchised brands only decreased slightly by approximately HK\$10.4 million or approximately 3.4%, from approximately HK\$304.1 million for the Last Corresponding Period to approximately HK\$293.7 million for the Period. Franchised brands remained as the main pillar of revenue, constituting approximately 73.4% of the total revenue of the Group for the Period (2021: 71.9%).

The revenue from self-owned brands decreased by approximately HK\$13.3 million or approximately 11.4%, from approximately HK\$117.0 million for the Last Corresponding Period to approximately HK\$103.7 million for the Period.

Revenue by business segments is set out below:

	For the six months ended 30 June			
	2022		2021	
	Revenue	% of total	Revenue	% of total
	HK\$'000	(%)	HK\$'000	(%)
Self-owned brands	103,658	25.9	117,002	27.7
Franchised brands	293,696	73.4	304,090	71.9
Sub-total of restaurant operations	397,354	99.3	421,092	99.6
Sale of food ingredients and others	2,669	0.7	1,789	0.4
Total	<u>400,023</u>	<u>100.0</u>	<u>422,881</u>	<u>100.0</u>

Other income and gains

The Group's other income and gains increased by approximately 32.2%, or approximately HK\$4.9 million, from approximately HK\$15.3 million for the Last Corresponding Period to approximately HK\$20.2 million for the Period.

The increase was mainly due to an increase in government subsidies of approximately HK\$8.0 million from approximately HK\$9.7 million for the Last Corresponding Period to approximately HK\$17.8 million for the Period, which was offset by the decrease in sponsorship income of approximately HK\$2.2 million recorded for the Last Corresponding Period, while there was no such income for the Period.

Cost of food and beverages

The Group's cost of food and beverages decreased by approximately 3.3%, or approximately HK\$4.5 million, from approximately HK\$133.7 million for the Last Corresponding Period to approximately HK\$129.2 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 approximately 31.6% for the Last Corresponding Period to approximately 32.3% for the Period.

Staff costs

The Group's staff costs decreased by approximately 3.5%, or approximately HK\$4.8 million, from approximately HK\$135.8 million for the Last Corresponding Period to approximately HK\$131.0 million for the Period. Despite the increase in the number of employees due to the expansion of restaurant network, the wages and salaries decreased by approximately HK\$4.6 million after the effect of net off of wage subsidies under the Employment Support Scheme of the Anti-Epidemic Fund launched by the Hong Kong Government for the Period. The amount of wage subsidies amounted to approximately HK\$19.4 million for the Period, while there were no such subsidies received for the Last Corresponding Period. The staff costs as a percentage of revenue remained relatively stable at approximately 32.7% for the Period (Last Corresponding Period: approximately 32.1%).

Depreciation of right-of-use assets, rental and related expenses

The Group's depreciation of right-of-use assets, rental and related expenses increased by approximately 13.2%, or approximately HK\$8.8 million, from approximately HK\$66.8 million for the Last Corresponding Period to approximately HK\$75.6 million for the Period. The increase in expenses was mainly due to the increase in the number of restaurants from 40 as at 30 June 2021 to 50 as at 30 June 2022.

Profit for the Period

Profit for the Period decreased significantly by approximately 73.5%, or approximately HK\$18.9 million, from approximately HK\$25.6 million for the Last Corresponding Period to approximately HK\$6.8 million for the Period.

The decrease in the profit was mainly attributable to the outbreak of the fifth wave of COVID-19 in Hong Kong during the Period, and implementation of dine-in restrictions and stricter social distancing policies by the Hong Kong Government, which had a negative impact on the Group's operations and business. A temporary suspension of business of the Group's restaurants and a weak market sentiment in early 2022 due to the pandemic also led to a drop in the Group's revenue and profits, which netted off with the effect of government subsidies recognised during the 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 2022, the Group had short term bank deposits of approximately HK\$79.2 million (as at 31 December 2021: approximately HK\$83.4 million) and cash and cash equivalents of approximately HK\$201.2 million (as at 31 December 2021: approximately HK\$241.9 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 2022, the Group's total current assets and current liabilities were approximately HK\$378.7 million (as at 31 December 2021: approximately HK\$415.7 million) and approximately HK\$307.6 million (as at 31 December 2021: approximately HK\$290.3 million) respectively, while the current ratio was about 1.2 times (as at 31 December 2021: about 1.4 times).

As at 30 June 2022, 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 2022, 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 2022, 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 2022. 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 2022, the Group had 1,802 employees (as at 31 December 2021: 1,499 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 remuneration of individual employee is reviewed regularly with reference to the employee's performance and qualifications.

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 Chinese New Year bonuses. The Group would provide induction trainings for new employees and continuous trainings to existing employees regularly.

SHARE OPTION SCHEME

No share option was granted during the Period. Since the date of adoption of the Share Option Scheme on 4 May 2018 and up to 30 June 2022, there was no share option granted, exercised, outstanding, expired, cancelled or lapsed 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. As at 30 June 2022, the Group did not have any foreign exchange investment and did not engage in any currency hedging transactions or enter into any hedging instruments.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities.

PROSPECTS

In light of the fifth wave of COVID-19 pandemic in Hong Kong in early 2022, the Hong Kong government imposed strict dine-in restrictions and social distancing measures. The Group's restaurants were also temporarily closed due to the severe outbreak of the pandemic, and the Group's turnover in the first quarter of 2022 was so adversely impacted, resulting in an operating loss for the quarter.

However, as the industry continued to adapt to the post-pandemic new market normality, together with the continuing support from our customers, the Group demonstrated strong resilience since late April 2022 when social distancing measures began to be relieved, with a rapid recovery in turnover. Taking into account the government subsidy in the first half of the year, the Group was able to not only offset the loss in the first quarter, but also successfully achieved profits in the first half of 2022 as a whole.

As large-scale vaccination programs were implemented globally, various countries are planning to reopen their borders that were long closed due to the pandemic. Global economy is expected to be on the road to recovery. We anticipate a resumption to the normal way of life and improved consumer sentiments for the second half of the year. The local catering industry is expecting a better future. In terms of local factors, the satisfying vaccination rate in Hong Kong and the new round of consumption voucher scheme later this year may be the catalyst for a quick recovery in the local consumption market, which can provide considerable growth opportunities for the Group's business.

We expect that the momentum in turnover growth in the second quarter will continue throughout the remainder of the year as the consumer sentiment improves. In terms of our strategies, we will enhance our pricing capability by rejuvenating the existing brands, developing and introducing new brands, expanding our restaurants network, strengthening digital marketing and continuing our product innovation, which in turn will further secure our pricing power and leading market position.

Crisis creates opportunities. Faced with uncertainties due to the pandemic, the Group is actively paving the way to grow its future revenue. In the first half of 2022, the Group opened five new restaurants in total, including two restaurants under the franchised café brand “The Matcha Tokyo” from Tokyo, Japan and a new self-owned Taiwanese hot pot brand “#HAP Taiwanese Hotpot (好呷台灣火鍋)”, to provide a more diverse dining experience to customers. Revenue and customer feedback of those restaurants are satisfying. With a robust financial position and brand layout of the Group and the above-mentioned external factors, provided that the social distancing measures in Hong Kong will not be further tightened in the second half of 2022, the management remains optimistic about the financial performance of the Group in the second half of 2022 and believes that the Group will achieve further growth in 2022.

INTERIM DIVIDEND

After considering the economic outlook, financial position of the Group, its future expansion plans and other factors, the Board resolved not to declare any interim dividend for the Period.

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.

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 (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 C.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 C.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 is 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 2022 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 2022 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, 29 August 2022

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.