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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2022	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue	1,063.2	997.9
Profit attributable to the shareholders of the Company	77.7	90.1
Earnings per share		
Basic and diluted (<i>HK cents</i>)	9.71	11.26

Final dividend in respect of the year ended 31 December 2022 of HK7.77 cents per share was proposed by the Board, which represented a dividend payout ratio of approximately 80%.

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of LH Group Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**we**”, “**our**” or “**us**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	1,063,159	997,919
Other income and gains	5	23,200	28,829
Cost of food and beverages		(334,819)	(314,154)
Staff costs		(296,786)	(292,471)
Depreciation and amortisation		(40,504)	(33,706)
Depreciation of right-of-use assets, rental and related expenses	6	(171,074)	(147,894)
Fuel and utility expenses		(24,817)	(20,401)
Advertising and marketing expenses		(7,549)	(6,048)
Other operating expenses		(109,618)	(101,541)
Provision for impairment of property, plant and equipment		(4,121)	(1,838)
Provision for impairment of right-of-use assets		(6,570)	(1,979)
Provision for impairment of intangible assets		(609)	—
Finance income	7	2,824	1,185
Finance costs	7	(8,276)	(4,758)
Profit before taxation	8	84,440	103,143
Income tax expense	9	(6,735)	(13,067)
Profit and total comprehensive income for the year attributable to the shareholders of the Company		<u>77,705</u>	<u>90,076</u>
Earnings per share			
Basic and diluted	10	<u>HK9.71 cents</u>	<u>HK11.26 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		109,461	121,694
Right-of-use assets		211,118	171,531
Investment property		12,733	645
Intangible assets		3,921	5,226
Rental and utilities deposits	12	46,578	40,585
Prepayments for purchase of property, plant and equipment	12	4,400	1,133
Deferred income tax assets		30,192	27,326
		418,403	368,140
CURRENT ASSETS			
Inventories		37,508	49,719
Trade receivables	12	8,538	6,358
Prepayments, deposits and other receivables	12	38,502	34,238
Tax recoverable		1,728	43
Short term bank deposits		145,451	83,414
Cash and cash equivalents		196,462	241,947
		428,189	415,719
Total assets		846,592	783,859
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	14	80,000	80,000
Share premium		122,781	122,781
Reserves		206,721	177,416
Total equity		409,502	380,197

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2022

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	13	15,654	12,991
Lease liabilities		127,250	93,493
Deferred income tax liabilities		6,121	6,888
		<hr/> 149,025	<hr/> 113,372
CURRENT LIABILITIES			
Trade payables	13	58,310	76,859
Other payables and accruals	13	85,861	83,172
Contract liabilities		43,755	34,785
Lease liabilities		96,409	85,801
Tax payable		3,730	9,673
		<hr/> 288,065	<hr/> 290,290
Total liabilities		<hr/> 437,090	<hr/> 403,662
Total equity and liabilities		<hr/> 846,592	<hr/> 783,859

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 Walkers Corporate Limited, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements of the Group which are in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. These consolidated financial statements have been prepared under the historical cost convention.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements.

3. ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

The Group has applied the following amendment for the first time for their annual reporting period commencing 1 January 2022:

Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract
HKFRS 3 (Amendments) Annual Improvements Project (Amendments)	Reference to the Conceptual Framework Annual Improvements 2018–2020 Cycle

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group has not adopted any new or amended standards or interpretations that are not yet effective for the year ended 31 December 2022.

(b) New standards and amendments to HKFRS in issue but not yet effective

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(c) **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 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 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:

	Year ended 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Recognised at a point in time:		
Restaurant operations	1,057,848	993,569
Sale of food ingredients and others	5,311	4,350
	<u>1,063,159</u>	<u>997,919</u>

(b) Segment information

The Directors, who are the chief operating decision-maker of the Group, have reviewed 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 by 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) 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) were 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, was measured consistently with the Group's profit/(loss) before tax except that unallocated finance costs and income and unallocated costs were 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, 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 revenue of the Group are derived in Hong Kong. As at 31 December 2022 and 2021, all non-current assets of the Group are located in Hong Kong.

During the year ended 31 December 2022, management has grouped “Cantonese cuisine — self-owned brands” and “Asian cuisine — self-owned brands” together as “Self-owned brands” and certain comparatives have been reclassified to conform with current year presentation.

An analysis of the Group’s revenue, profit before taxation, depreciation and amortisation, depreciation of right-of-use assets and provision for impairment for the years ended 31 December 2022 and 2021 and segment assets and liabilities as at 31 December 2022 and 2021 are as follows:

	For the year ended 31 December 2022			
	Self-owned brands HK\$'000	Franchised brands HK\$'000	Sale of food ingredients and others HK\$'000	Total HK\$'000
Segment revenue				
Revenue	272,950	784,898	110,283	1,168,131
Inter-segment revenue	—	—	(104,972)	(104,972)
External revenue	<u>272,950</u>	<u>784,898</u>	<u>5,311</u>	<u>1,063,159</u>
Segment profit/(loss)	<u>8,136</u>	<u>104,219</u>	<u>(1,163)</u>	<u>111,192</u>
Depreciation and amortisation	<u>(7,655)</u>	<u>(30,197)</u>	<u>(1,381)</u>	<u>(39,233)</u>
Depreciation of right-of-use assets	<u>(31,889)</u>	<u>(70,702)</u>	<u>—</u>	<u>(102,591)</u>
Provision for impairment	<u>(11,300)</u>	<u>—</u>	<u>—</u>	<u>(11,300)</u>
Segment profit				111,192
Unallocated depreciation and amortisation				(1,271)
Unallocated depreciation of right-of-use assets				(4,031)
Unallocated costs				(23,483)
Unallocated finance income				2,559
Unallocated finance costs				(526)
Profit before taxation				<u>84,440</u>
Segment assets	<u>124,304</u>	<u>275,509</u>	<u>95,829</u>	<u>495,642</u>
Segment liabilities	<u>(105,776)</u>	<u>(251,423)</u>	<u>(15,482)</u>	<u>(372,681)</u>

For the year ended 31 December 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	269,310	724,259	102,411	1,095,980
Inter-segment revenue	—	—	(98,061)	(98,061)
External revenue	<u>269,310</u>	<u>724,259</u>	<u>4,350</u>	<u>997,919</u>
Segment profit/(loss)	<u>35,148</u>	<u>125,428</u>	<u>(1,575)</u>	<u>159,001</u>
Depreciation and amortisation	<u>(7,911)</u>	<u>(20,946)</u>	<u>(1,381)</u>	<u>(30,238)</u>
Depreciation of right-of-use assets	<u>(28,658)</u>	<u>(64,074)</u>	<u>—</u>	<u>(92,732)</u>
Provision for impairment	<u>(1,777)</u>	<u>(2,040)</u>	<u>—</u>	<u>(3,817)</u>
Segment profit				159,001
Unallocated depreciation and amortisation				(3,468)
Unallocated depreciation of right- of-use assets				(4,282)
Unallocated costs				(49,129)
Unallocated finance income				1,063
Unallocated finance costs				(42)
Profit before taxation				<u>103,143</u>
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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Segment assets	495,642	464,627
Unallocated assets	350,950	319,232
	<u>846,592</u>	<u>783,859</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Segment liabilities	372,681	355,323
Unallocated liabilities	64,409	48,339
	<u>437,090</u>	<u>403,662</u>

(c) **Contract liabilities**

The Group recognised the following revenue-related contract liabilities:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Advances from customers	292	238
Deferred revenue	43,463	34,547
	<hr/>	<hr/>
Total contract liabilities	43,755	34,785
	<hr/> <hr/>	<hr/> <hr/>

Advances from customers represent the payments received from customers for reservations and coupons. Deferred revenue represents the fair value of outstanding loyalty points, coupons and discount and expected renewal of membership in respect of customer loyalty programme as at 31 December 2022.

The following table shows the revenue recognised in relation to carried forward contract liabilities:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Restaurant operations	34,785	21,819
	<hr/> <hr/>	<hr/> <hr/>

Due to the short-term nature of the related revenue, all contract liabilities balance at the year end would be recognised into revenue in the next financial year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. OTHER INCOME AND GAINS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income:		
Government grants (<i>Note (a)</i>)	17,966	9,856
Promotion income from a credit card company	3,300	3,200
Rental income	141	89
Sponsorship income	707	2,363
Over-provision for litigation cost relating to claim against the vacant possession and early termination on lease in prior year	—	1,468
Compensation income from an insurance company	—	1,234
Sundry income	1,086	871
	<u>23,200</u>	<u>19,081</u>
Other gains:		
Net gains from lease modification (<i>Note (b)</i>)	—	9,004
Gains on disposal of property, plant and equipment	—	6
Gain on reversal of provision for reinstatement cost (<i>Note 13(a)</i>)	—	738
	<u>—</u>	<u>9,748</u>
Total other income and gains	<u><u>23,200</u></u>	<u><u>28,829</u></u>

Note:

- (a) Government subsidies of approximately HK\$17,400,000 (2021: HK\$9,620,000) were granted from the one-off Food Licence Holders Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region (“**HKSAR Government**”). The Group has fulfilled with all attached conditions and they are recognised in profit or loss in “other income and gains”.
- (b) There were no early termination of leases and lease modification of two leases during the year ended 31 December 2022 (2021: early termination of three leases and lease modification of one lease). No right-of-use assets (2021: HK\$2,753,000) and lease liabilities (2021: HK\$11,757,000) were derecognised.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Depreciation of right-of-use assets	106,622	97,014
Property rentals and related expenses	<u>64,452</u>	<u>50,880</u>
	<u>171,074</u>	<u>147,894</u>

7. FINANCE INCOME AND COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income from bank deposits	2,824	1,039
Finance income on financial assets	<u>—</u>	<u>146</u>
Finance income	<u>2,824</u>	<u>1,185</u>
Finance costs on lease liabilities	(7,229)	(4,758)
Finance costs on financial assets	<u>(1,047)</u>	<u>—</u>
Finance costs	<u>(8,276)</u>	<u>(4,758)</u>

8. PROFIT BEFORE TAXATION

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Depreciation of property, plant and equipment	39,454	32,993
Depreciation of investment property	354	25
Amortisation of intangible assets	696	688
COVID-19-related rent concessions	(6,817)	(4,169)
Lease payments under operating leases in respect of land and buildings:		
— Short term lease payments	6,295	1,938
— Contingent rental	20,082	18,764
	<u>26,377</u>	<u>20,702</u>
Auditors' remuneration		
— Audit services	2,450	2,200
— Non-audit services	1,260	1,173
	<u>1,260</u>	<u>1,173</u>

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided on the estimated assessable profits at a rate of 16.5% for the year ended 31 December 2022 (2021: 16.5%).

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong profits tax		
Current income tax	10,191	13,319
Under/(over) provision in prior year	177	(699)
Deferred income tax	(3,633)	447
	<u>6,735</u>	<u>13,067</u>

10. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company (“Shareholders”) by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Profit attributable to the Shareholders (<i>HK\$’000</i>)	77,705	90,076
Weighted average number of shares in issue (’000)	<u>800,000</u>	<u>800,000</u>
Basic earnings per share (<i>HK cents</i>)	<u><u>9.71</u></u>	<u><u>11.26</u></u>

(b) Diluted

Diluted earnings per share are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

11. DIVIDENDS

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
2021 final dividend, HK6.05 cents per ordinary share (2020 final dividend: HK13.16 cents)	48,400	105,280
2022 interim dividend, nil per ordinary share (2021 interim dividend: HK2.40 cents)	<u>—</u>	<u>19,200</u>
	<u><u>48,400</u></u>	<u><u>124,480</u></u>

A final dividend in respect of the year ended 31 December 2022 of HK7.77 cents per ordinary share, totalling HK\$62,160,000, was proposed by the Board on 27 March 2023 which is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (“AGM”). The proposed dividend is not reflected as dividend payable in the consolidated statement of financial position.

12. TRADE AND OTHER RECEIVABLES

Trade receivables

The Group's trade receivables are denominated in HK\$. The carrying value of trade receivables approximate their fair values due to their short-term maturities.

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	7,747	5,742
31–60 days	223	192
61–180 days	568	424
	<u>8,538</u>	<u>6,358</u>

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, and therefore are all classified as current.

The maximum exposure to credit risk as at 31 December 2022 and 2021 is the carrying value of trade receivables mentioned above. The Group does not hold any collateral as security.

Prepayments, deposits and other receivables

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Prepayments	15,974	10,781
Rental and utilities deposits	70,284	63,456
Other receivables	3,222	1,719
	<u>89,480</u>	<u>75,956</u>
Less: non-current portion		
— Rental and utilities deposits	(46,578)	(40,585)
— Prepayments for purchase of property, plant and equipment	(4,400)	(1,133)
	<u>38,502</u>	<u>34,238</u>

At 31 December 2022 and 2021, the balances of deposits and other receivables were not past due. Financial assets included in the above balances relate to receivables for which there was no recent history of default. No provision for impairment was made to the rental and utilities deposits during the years ended 31 December 2022 and 2021.

The maximum exposure to credit risk as at 31 December 2022 and 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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
External suppliers	<u>58,310</u>	<u>76,859</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 30 days	37,727	46,165
31–60 days	20,208	30,304
61–180 days	55	210
Over 180 days	320	180
	<u>58,310</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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Rent payable	4,515	3,948
Accrued employee benefit expenses	29,469	27,557
Provision for long service payment	2,143	2,025
Provision for untaken annual leave	10,498	10,803
Provision for reinstatement costs (<i>Note (a)</i>)	23,123	20,745
Other accrued expenses	27,353	24,962
Payables for purchase of property, plant and equipment	3,782	5,491
Others payables	632	632
	<u>101,515</u>	<u>96,163</u>
Less: non-current portion		
— Provision for reinstatement costs	<u>(15,654)</u>	<u>(12,991)</u>
Current portion	<u>85,861</u>	<u>83,172</u>

The carrying amounts of other payables and accruals are approximate to their fair values as the impact of discounting is insignificant, and are mainly denominated in HK\$.

(a) Provision for reinstatement costs

Movements in the Group's provision for reinstatement costs are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At the beginning of the year	20,745	18,105
Additional provision during the year	2,721	4,001
Reversal of provision made in prior years (Note 5)	—	(738)
Settlement	(343)	(623)
	<hr/>	<hr/>
At the end of the year	<u>23,123</u>	<u>20,745</u>

14. SHARE CAPITAL

(a) Authorised:

	2022		2021	
	Number of shares	Nominal value <i>HK\$'000</i>	Number of shares	Nominal value <i>HK\$'000</i>
At the beginning and the end of the year	<u>4,000,000,000</u>	<u>400,000</u>	<u>4,000,000,000</u>	<u>400,000</u>

(b) Issued and fully paid:

	2022		2021	
	Number of shares	Nominal value <i>HK\$'000</i>	Number of shares	Nominal value <i>HK\$'000</i>
At the beginning and the end of the year	<u>800,000,000</u>	<u>80,000</u>	<u>800,000,000</u>	<u>80,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Considering the fifth wave outbreak of the pandemic in Hong Kong in early 2022, the Hong Kong Government imposed stringent dine-in restrictions and social distancing measures, leading to a temporary closure of the Group's restaurants during that time. Since the social distancing measures began to relax in late April 2022, the Group showed strong resilience and agility, which led to a rapid recoup of the revenue for the Group. This not only offset the losses recorded in the first quarter of 2022 but also successfully generated an overall profit in adversity for the year 2022, with profit surged from approximately HK\$6.8 million as recorded in interim results for the first half of 2022 to approximately HK\$77.7 million for the year 2022.

Although no revenue were generated from dine-in dinner for almost four months in 2022, the Group's revenue recorded an increase by approximately 6.5% or approximately HK\$65.2 million to approximately HK\$1 billion for the year 2022 as compared to the year 2021. Restaurants revenue for the second half of 2022 was almost at par with the pre-pandemic level of corresponding period of 2018. Excluding significant incidental items i.e. government grants and subsidies, net gains from lease modification and provision for impairment of property, plant and equipment, right-of-use assets and intangible assets, the core profit before tax from operations for the second half of 2022 was approximately HK\$84.4 million, representing an increase by approximately 22.1% from approximately HK\$69.1 million for the second half of 2021, demonstrating a significant improvement in the profitability of the Group.

BUSINESS REVIEW

As at 31 December 2022, the Group operated 16 restaurants under self-owned brands “*Mou Mou Club* (牛涮鍋)”, “*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 37 restaurants under franchised brands, “*Gyu-Kaku* (牛角)”, “*Gyu-Kaku Jinan-Bou* (牛角次男坊)”, “*On-Yasai* (溫野菜)” 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 markets 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 31 December	
	2022	2021
Self-owned brands	16	15
Franchised brands	37	30
Total	53	45

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 which 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 in the first quarter of 2022. Since the social distancing measures began to relax in late April 2022, the Group showed strong resilience and agility in recouping its revenue for the remaining period of the year ended 31 December 2022.

The Group’s revenue increased by approximately 6.5%, or approximately HK\$65.2 million, from approximately HK\$997.9 million for the year ended 31 December 2021 to approximately HK\$1,063.2 million for the year ended 31 December 2022 amid the adversity.

The revenue from franchised brands increased by approximately HK\$60.6 million or approximately 8.4%, from approximately HK\$724.3 million for the year ended 31 December 2021 to approximately HK\$784.9 million for the year ended 31 December 2022. The increase in revenue was attributable to the increase in the number of restaurants under franchised brands from 30 as at 31 December 2021 to 37 as at 31 December 2022. The increase in revenue base and comparable restaurants revenue for the second half of 2022 was almost at par level with the same period of 2021. Franchised brands remained as the main pillar of revenue, constituting approximately 73.8% of the total revenue of the Group for the year ended 31 December 2022 (2021: 72.6%).

The revenue from self-owned brands increased slightly by approximately HK\$3.6 million or approximately 1.4%, from approximately HK\$269.3 million for the year ended 31 December 2021 to approximately HK\$273.0 million for the year ended 31 December 2022.

Revenue by business segments is set out below:

	For the year ended 31 December			
	2022		2021	
	Revenue	% of total	Revenue	% of total
	HK\$'000	(%)	HK\$'000	(%)
Self-owned brands	272,950	25.7	269,310	27.0
Franchised brands	784,898	73.8	724,259	72.6
Sub-total of restaurant operations	1,057,848	99.5	993,569	99.6
Sale of food ingredients and others	5,311	0.5	4,350	0.4
Total	1,063,159	100.0	997,919	100.0

Other income and gains

The Group's other income and gains decreased by approximately 19.5%, or approximately HK\$5.6 million, from approximately HK\$28.8 million for the year ended 31 December 2021 to approximately HK\$23.2 million for the year ended 31 December 2022.

The decrease was mainly due to (i) a decrease in net gains from lease modification of approximately HK\$9.0 million recorded for the year ended 31 December 2021, while there was no such gain for the year ended 31 December 2022; (ii) a decrease in sponsorship income by approximately HK\$1.7 million from approximately HK\$2.4 million for the year ended 31 December 2021 to approximately HK\$0.7 million for the year ended 31 December 2022; which was offset by (iii) an increase in government subsidies of approximately HK\$8.1 million from approximately HK\$9.9 million for the year ended 31 December 2021 to approximately HK\$18.0 million for the year ended 31 December 2022.

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 6.6%, or approximately HK\$20.7 million, from approximately HK\$314.2 million for the year ended 31 December 2021 to approximately HK\$334.8 million for the year ended 31 December 2022. The increase was in line with the increase in revenue during the year ended 31 December 2022.

Despite the overall increase in the prices for food in the global supply chain, the Group managed to control the food costs through making bulk purchases, closely monitoring the prices and switching to similar or higher quality alternatives. As a result, the cost of food and beverages as a percentage of revenue is steadily maintained at approximately 31.5% for both years ended 31 December 2022 and 2021.

Staff costs

The Group's staff costs increased by approximately 1.5%, or approximately HK\$4.3 million, from approximately HK\$292.5 million for the year ended 31 December 2021 to approximately HK\$296.8 million for the year ended 31 December 2022. Such increase was mainly due to the increase in number of staff, although partially offset by the wage subsidies of approximately HK\$29.7 million (2021: nil) from the Employment Support Scheme under the Anti-Epidemic Fund launched by the Hong Kong Government for the year ended 31 December 2022. The staff costs as a percentage of revenue decreased to approximately 27.9% for the year ended 31 December 2022 (2021: 29.3%).

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 15.7%, or approximately HK\$23.2 million, from approximately HK\$147.9 million for the year ended 31 December 2021 to approximately HK\$171.1 million for the year ended 31 December 2022. The increase in expenses was mainly due to the increase in the number of restaurants from 45 as at 31 December 2021 to 53 as at 31 December 2022.

Profit for the year

As a result of the foregoing, profit for the year ended 31 December 2022 decreased by approximately 13.8%, or approximately HK\$12.4 million, from approximately HK\$90.1 million for the year ended 31 December 2021 to approximately HK\$77.7 million for the year ended 31 December 2022. Such decrease was mainly due to the provision for impairment of property, plant and equipment, right-of-use assets and intangible assets with a total amount of approximately HK\$11.3 million (2021: HK\$3.8 million) for certain underperforming shops.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its business with internally generated cash flows and capital contributions from the Shareholders of the Company. As at 31 December 2022, the Group had short term bank deposits of approximately HK\$145.5 million (2021: approximately HK\$83.4 million) and cash and cash equivalents of approximately HK\$196.5 million (2021: approximately HK\$241.9 million). Most bank deposits and cash were denominated in Hong Kong dollar. The Group will continue to use the internal generated cash flows and capital contributions from the Shareholders of the Company as a source of funding for future developments.

As at 31 December 2022, the Group's total current assets and current liabilities were approximately HK\$428.2 million (2021: approximately HK\$415.7 million) and approximately HK\$288.1 million (2021: approximately HK\$290.3 million) respectively, while the current ratio was about 1.5 times (2021: about 1.4 times).

As at 31 December 2022, the gearing ratio of the Group was nil (2021: nil) 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%.

There has been no change in the capital structure of the Company during the year ended 31 December 2022.

SIGNIFICANT INVESTMENTS

As at 31 December 2022, 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 year ended 31 December 2022.

PLEDGE OF ASSETS

As at 31 December 2022, the Group did not pledge any its assets.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred since the end of the year ended 31 December 2022 and up to the date of this announcement which requires disclosure.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had 1,768 employees (2021: 1,499 employees). The Group has developed its human resources policy that 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 year ended 31 December 2022. Since the date of adoption of the Share Option Scheme and up to 31 December 2022, the Company had not granted any share option under the Share Option Scheme and 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. As at 31 December 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 31 December 2022, the Group did not have any material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the date of this announcement, the Group had not entered into any off-balance sheet transactions and had no capital commitments or any specific plans for material investments or capital assets as at 31 December 2022.

PROSPECTS

As the spread of the COVID-19 pandemic subsides worldwide, the recovery of global economy and cross-border economic activities have been accelerated. Hong Kong has fully opened its borders with Mainland China in February 2023 and lifted the “mask mandate” in March 2023, paving its way for return to normality. The daily lives of citizens have returned to normal, driven a further improvement in consumer sentiments. Despite the economy in Hong Kong is gradually recovering, challenges still persist. For instances, inflation and geopolitical risk altogether bring pressure to the global economic activities. For catering industry, the pandemic changes dining habits of the public and the industry is facing a critical challenge of shortage of labour. The Group will closely monitor the market changes and respond to challenges with agility. We will also continuously boost our level of standards and increase competitiveness. In addition, we have introduced robots and mobile phone ordering to ease the burden of our staff.

While facing the difficult business environment, we are still optimistic about the industry development. The Hong Kong Government will implement a new round of consumption voucher scheme in April 2023. We expect that consumer sentiments will be boosted further, which may act as the catalyst for accelerating the recovery in the local consumption market. On the other hand, the Hong Kong Government has launched a “Hello Hong Kong” Campaign to actively promote tourism in Hong Kong. Through giveaways of flight tickets and visitor consumption vouchers, together with various major events, such as exhibitions and international conferences, to be held in Hong Kong, it is believed that more tourists and business travellers will be attracted to visit and spend in Hong Kong. Such campaign is expected to drive the Group’s business growth in the second half of 2023.

Although the business environment was uncertain because of the past pandemic, the Group has been proactively identifying and seizing each opportunity to grow. The number of restaurants increased rapidly from 38 prior to the outbreak of the pandemic at the end of 2019 to 53 by the end of 2022, carving a path for our future income growth. In 2022, the Group opened nine new restaurants in total, including six restaurants under the franchised cafe brand “The Matcha Tokyo” from Tokyo, Japan, and a brand-new self-owned Taiwanese hotpot brand “#HAP Taiwanese Hotpot (好呷台灣火鍋)”, to provide a more diverse dining experience to customers. Despite investments in the above new brands are still at an early stage, we expect a steady growth in revenue from these new brands. In addition, the Group has appointed Mr. Luk Ernest Man Chung as the Group’s Chief Executive (Food & Beverage) with effect from December 2022, as part of the Group’s effort establishing a professional management team to better plan for the next stage of business growth.

In 2023, the Group is entering into a new stage of development. We will proactively rejuvenate the existing brands, develop and introduce new brands, expand our restaurants network, while further institutionalizing our workflow, strengthening digital marketing, continuing to launch innovative products and promoting a balanced development among all brands of the Group, which in turn will accelerate our business growth and secure our leading market position. We expect to achieve further growth under the resumed business environment.

With the return to post-pandemic normality together with a strengthened management team and balance sheet, the Group is focused on investing in the future. We are constantly reviewing our organic growth and investment opportunities as well as our dividend strategy to ensure the Group is best positioned for future growth in the longer term.

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 during the year ended 31 December 2022 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Wednesday, 7 June 2023. The notice of AGM, which constitutes part of the circular to the Shareholders, will be sent according to the applicable law, the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and articles of association of the Company in due course.

FINAL DIVIDEND

After considering the economic outlook and financial position of the Group, the Group hopes to share the results with all the Shareholders. The Directors recommended the payment of a final dividend of HK7.77 cents per share for the year ended 31 December 2022 (2021: HK6.05 cents per share), subject to the Shareholders’ approval at the AGM. The dividend payout ratio was approximately 80%. If the resolution for the proposed final dividend is passed at the AGM, the proposed final dividend will be payable on or around Tuesday, 27 June 2023.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the identity of the Shareholders who will be entitled to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 2 June 2023 to Wednesday, 7 June 2023, both dates inclusive, the period during which no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at its office at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 1 June 2023.

Subject to the approval of the Shareholders at the AGM approving the payment of the final dividend, to ascertain the entitlement of the final dividend of the Shareholders, the register of members of the Company will be closed from Tuesday, 13 June 2023 to Thursday, 15 June 2023, the period during which no transfer of shares will be effected. In order to qualify for receiving the final dividend, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at its office at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 12 June 2023.

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**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2022, save for the deviation from code provision C.2.1 of the CG Code, the Company had 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 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. Taking into account 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 Group 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 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 year ended 31 December 2022.

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 year ended 31 December 2022.

AUDIT COMMITTEE

The Board has established an audit committee of the Company (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 the Group’s policies and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee, together with the management of the Group, have reviewed the consolidated annual results of the Group for the year ended 31 December 2022.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2022 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2022 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.lhgroup.com.hk), and the 2022 annual 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 of the Group 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 March 2023

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.