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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 2023

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2023	2022
	HK\$ million	HK\$ million
Revenue	660.5	400.0
Profit attributable to the shareholders of the Company	47.6	6.8
Earnings per share Basic and diluted (HK cents)	5.94	0.85

The Board has resolved to declare an interim dividend in respect of the six months ended 30 June 2023 of HK4.75 cents per share (2022: nil), which represented a dividend payout ratio of approximately 80%, and a special dividend of HK12.50 cents per share.

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 2023 (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 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	4	660,509	400,023
Other income and gains	5	2,512	20,206
Cost of food and beverages		(201,247)	(129,249)
Staff costs		(203,220)	(130,985)
Depreciation and amortisation		(20,538)	(19,824)
Depreciation of right-of-use assets, rental and related expenses	6	(98,386)	(75,614)
Fuel and utility expenses		(15,317)	(9,806)
Advertising and marketing expenses		(3,699)	(3,281)
Other operating expenses		(66,461)	(47,785)
Finance income	7	6,662	470
Finance costs	7	(4,608)	(3,225)
Profit before taxation	9	56,207	930
Income tax (expense)/credit	8	(8,657)	5,858
Profit and total comprehensive income for the period attributable to the shareholders of the Company		<u>47,550</u>	<u>6,788</u>
Earnings per share			
Basic and diluted	10	<u>HK5.94 cents</u>	<u>HK0.85 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		110,684	109,461
Right-of-use assets		234,287	211,118
Investment properties		12,473	12,733
Intangible assets		3,563	3,921
Rental and utilities deposits	12	57,570	46,578
Prepayments for purchase of property, plant and equipment	12	208	4,400
Deferred income tax assets		32,295	30,192
		451,080	418,403
CURRENT ASSETS			
Inventories		22,069	37,508
Trade receivables	12	6,254	8,538
Prepayments, deposits and other receivables	12	28,736	38,502
Tax recoverable		1,728	1,728
Short term bank deposits		212,478	145,451
Cash and cash equivalents		147,540	196,462
		418,805	428,189
Total assets		869,885	846,592
EQUITY			
Equity and reserves attributable to the shareholders of the Company			
Share capital		80,000	80,000
Share premium		122,781	122,781
Reserves		192,111	206,721
Total equity		394,892	409,502

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2023

	<i>Note</i>	As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
LIABILITIES			
NON-CURRENT LIABILITIES			
Provision for reinstatement costs	13	18,213	15,654
Lease liabilities		141,901	127,250
Deferred income tax liabilities		6,121	6,121
		<u>166,235</u>	<u>149,025</u>
CURRENT LIABILITIES			
Trade payables	13	55,490	58,310
Other payables and accruals	13	88,062	85,861
Contract liabilities		49,217	43,755
Lease liabilities		104,991	96,409
Tax payable		10,998	3,730
		<u>308,758</u>	<u>288,065</u>
Total liabilities		<u>474,993</u>	<u>437,090</u>
Total equity and liabilities		<u>869,885</u>	<u>846,592</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 2023	80,000	122,781	179,102	27,619	409,502
Profit and total comprehensive income for the period	—	—	47,550	—	47,550
Dividends (<i>Note 11</i>)	—	—	(62,160)	—	(62,160)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 30 June 2023	<u>80,000</u>	<u>122,781</u>	<u>164,492</u>	<u>27,619</u>	<u>394,892</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 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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
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>

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 (in particular Japanese) and Cantonese 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 28 August 2023.

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 2022 (the “**2022 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 2022 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 2022 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 2023:

HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of accounting policies
HKAS 8 (Amendments)	Definition of accounting estimates
HKAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction

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 2023.

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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Recognised at a point in time:		
Restaurant operations	657,367	397,354
Sale of food ingredients and others	3,142	2,669
	<u>660,509</u>	<u>400,023</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 2023 and 31 December 2022, all of non-current assets of the Group are located in Hong Kong.

(Unaudited)	For the six months ended 30 June 2022			
	Self-owned brands HK\$'000	Franchised brands HK\$'000	Sale of food ingredients and others HK\$'000	Total HK\$'000
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 (loss)/profit	<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 costs				(8,393)
Unallocated finance income				285
Unallocated finance costs				<u>(282)</u>
Profit before taxation				<u>930</u>

	As at 31 December 2022			
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>

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

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Segment assets	505,858	495,642
Unallocated assets	<u>364,027</u>	<u>350,950</u>
	<u>869,885</u>	<u>846,592</u>

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

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Segment liabilities	403,715	372,681
Unallocated liabilities	<u>71,278</u>	<u>64,409</u>
	<u>474,993</u>	<u>437,090</u>

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Government grants	249	17,766
Promotion income from a credit card company	1,650	1,650
Sundry income	<u>613</u>	<u>790</u>
	<u>2,512</u>	<u>20,206</u>

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Depreciation of right-of-use assets	58,835	52,166
Property rentals and related expenses	39,551	23,448
	<u>98,386</u>	<u>75,614</u>

7. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest income from bank deposits	6,662	312
Finance income on financial assets	—	158
Finance income	<u>6,662</u>	<u>470</u>
Finance costs on lease liabilities	(4,399)	(3,225)
Finance costs on financial assets	(209)	—
Finance costs	<u>(4,608)</u>	<u>(3,225)</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 2023 and 2022.

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Hong Kong profits tax		
Current income tax	10,760	1,253
Deferred income tax	(2,103)	(7,111)
Income tax expense/(credit)	<u>8,657</u>	<u>(5,858)</u>

9. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	19,920	19,454
Depreciation of right-of-use assets	58,835	52,166
Depreciation of investment properties	260	12
Amortisation of intangible assets	358	358
COVID-19-related rent concessions	—	(5,709)
Lease payments under operating leases in respect of land and buildings:		
— Minimum lease payments	3,405	2,591
— Contingent rental	11,933	5,490
	15,338	8,081
Employee benefit expenses		
Wages and salaries	177,081	112,897
Discretionary bonuses	13,614	13,099
Retirement benefit scheme contributions	8,068	6,494
Staff welfare	3,008	2,011
Reversal of untaken annual leave	(113)	(4,550)
Provision for long service payment	1,562	1,034
	203,220	130,985
Auditors' remuneration		
— Audit services	1,225	1,100
— Non-audit services	340	356

10. EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to the shareholders of the Company (the “Shareholders”) of approximately HK\$47,550,000 (six months ended 30 June 2022: HK\$6,788,000) and the 800,000,000 ordinary shares in issue during the six months ended 30 June 2023 and 2022.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to the Shareholders (<i>HK\$'000</i>)	47,550	6,788
Number of ordinary shares in issue (<i>'000</i>)	<u>800,000</u>	<u>800,000</u>
Earnings per share	<u><u>HK5.94 cents</u></u>	<u><u>HK0.85 cents</u></u>

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2023 and 2022 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

11. DIVIDENDS

A final dividend for the year ended 31 December 2022 of HK7.77 cents per ordinary share, totalling HK\$62,160,000, was declared by the Board on 27 March 2023 and approved by the Shareholders at the annual general meeting of the Company held on 7 June 2023, which was paid on 27 June 2023.

An interim dividend in respect of the six months ended 30 June 2023 of HK4.75 cents per ordinary share, totalling HK\$38 million, and a special dividend of HK12.50 cents per ordinary share, totalling HK\$100 million, was declared by the Board on 28 August 2023. The declared dividends are not reflected as dividend payable in the consolidated statement of financial position as at 30 June 2023. The Board resolved not to declare an interim dividend for the corresponding period of last year.

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 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
External customers	<u>6,254</u>	<u>8,538</u>

An ageing analysis of the trade receivables as at 30 June 2023 and 31 December 2022, based on the invoice date, is as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 30 days	5,404	7,747
31–60 days	304	223
61–180 days	546	568
	<u>6,254</u>	<u>8,538</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 2023 and 31 December 2022.

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Prepayments	9,597	15,974
Rental and utilities deposits	73,500	70,284
Other receivables	3,417	3,222
	86,514	89,480
Less: non-current portion		
— Rental and utilities deposits	(57,570)	(46,578)
— Prepayments for property, plant and equipment	(208)	(4,400)
Current portion	28,736	38,502

As at 30 June 2023 and 31 December 2022, 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 2023 and 31 December 2022 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 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
External suppliers	<u>55,490</u>	<u>58,310</u>

An ageing analysis of the trade payables as at 30 June 2023 and 31 December 2022, based on the invoice date, is as follows:

	As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
Within 30 days	39,419	37,727
31–60 days	15,437	20,208
61–180 days	215	55
Over 180 days	419	320
	<u>55,490</u>	<u>58,310</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 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
Rent payable	3,552	4,515
Accrued employee benefit expenses	33,794	29,469
Provision for long service payment	3,667	2,143
Provision for untaken annual leave	10,375	10,498
Provision for reinstatement costs	23,491	23,123
Contract liabilities	49,217	43,755
Other accrued expenses	26,565	27,353
Payables for purchase of property, plant and equipment	3,539	3,782
Other payables	1,292	632
	<hr/> 155,492	<hr/> 145,270
Less: non-current portion		
— Provision for reinstatement costs	(18,213)	(15,654)
	<hr/> 137,279	<hr/> 129,616
Current portion	<u>137,279</u>	<u>129,616</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 2023, the Group operated a total of 55 restaurants, out of which 16 restaurants are under five self-owned brands, namely “*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 39 restaurants are under four franchised brands, namely “*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 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	
	2023	2022
Self-owned brands	16	16
Franchised brands	39	34
Total:	55	50

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 outbreak of the pandemic in early 2022, which led to a drop in the Group’s revenue for the six months ended 30 June 2022 (the “**Last Corresponding Period**”). Since the social distancing measures began to relax in late April 2022, the Group showed strong resilience and agility and there was rapid rebound in revenue thereafter.

Compared to the results for the Last Corresponding Period, which were significantly hit by the outbreak of the fifth wave of outbreak of the Pandemic in Hong Kong, the Group’s revenue increased by approximately 65.1%, or approximately HK\$260.5 million, from approximately HK\$400.0 million for the Last Corresponding Period to approximately HK\$660.5 million for the Period. The increase in revenue mainly due to (i) the absence of strict social distancing measures from early January to late April 2022, which significantly affected the performance of the Group in Last Corresponding Period; and (ii) the increase in number of restaurants operated by the Group from 50 as at 30 June 2022 to 55 as at 30 June 2023.

The number of restaurants under franchised brands increased from 34 as at 30 June 2022 to 39 as at 30 June 2023 and the revenue from franchised brands increased by approximately HK\$189.7 million or approximately 64.6%, from approximately HK\$293.7 million for the Last Corresponding Period to approximately HK\$483.4 million for the Period. Franchised brands remained as the main pillar of revenue, constituting approximately 73.2% of the total revenue of the Group for the Period (Last Corresponding Period: 73.4%).

The revenue from self-owned brands increased by approximately HK\$70.3 million or approximately 67.9%, from approximately HK\$103.7 million for the Last Corresponding Period to approximately HK\$174.0 million for the Period.

Revenue by business segments is set out below:

	For the six months ended 30 June			
	2023		2022	
	Revenue	% of total	Revenue	% of total
	HK\$'000	(%)	HK\$'000	(%)
Self-owned brands	173,993	26.3	103,658	25.9
Franchised brands	483,374	73.2	293,696	73.4
Sub-total of restaurant operations	657,367	99.5	397,354	99.3
Sale of food ingredients and others	3,142	0.5	2,669	0.7
Total	<u>660,509</u>	<u>100.0</u>	<u>400,023</u>	<u>100.0</u>

Other income and gains

The Group's other income and gains decreased by approximately 87.6%, or approximately HK\$17.7 million, from approximately HK\$20.2 million for the Last Corresponding Period to approximately HK\$2.5 million for the Period.

The decrease was mainly due to a decrease in government subsidies of approximately HK\$17.5 million from approximately HK\$17.8 million for the Last Corresponding Period to approximately HK\$0.3 million for the Period. Other income and gains mainly consist of promotion income from a credit card company of approximately HK\$1.7 million for the Period (Last Corresponding Period: approximately HK\$1.7 million).

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 55.7%, or approximately HK\$72.0 million, from approximately HK\$129.2 million for the Last Corresponding Period to approximately HK\$201.2 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 decreased from approximately 32.3% for the Last Corresponding Period to approximately 30.5% for the Period.

Staff costs

The Group's staff cost increased by approximately 55.1%, or approximately HK\$72.2 million, from approximately HK\$131.0 million for the Last Corresponding Period to approximately HK\$203.2 million for the Period. Apart from the increase in the number of employees due to the expansion of restaurant network, the increase was due to the absence of wage subsidy being received under the Employment Support Scheme of the Anti-Epidemic Fund set up by the Hong Kong Government for the Period, while the amount of relevant subsidies for the Last Corresponding Period was approximately HK\$19.4 million. If the wage subsidies for the Last Corresponding Period were excluded, wages and salaries increased by approximately HK\$52.8 million for the Period. Staff cost as a percentage of revenue decreased by 1.9 percentage points from approximately 32.7% for the Last Corresponding Period to approximately 30.8% for the Period. If the wage subsidies received during the Last Corresponding Period were excluded, staff cost was amounted to 30.8% for the Period, which decreased by 6.8 percentage points from approximately 37.6% for the Last Corresponding Period.

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 30.1%, or approximately HK\$22.8 million, from approximately HK\$75.6 million for the Last Corresponding Period to approximately HK\$98.4 million for the Period. The increase in expenses was mainly due to the increase in the number of restaurants from 50 as at 30 June 2022 to 55 as at 30 June 2023.

Profit for the Period

Profit for the Period increased significantly by approximately 600.5%, or approximately HK\$40.8 million, from approximately HK\$6.8 million for the Last Corresponding Period to approximately HK\$47.6 million for the Period.

The increase in profit was mainly due to the absence of the negative impacts on the Group's business during the Period due to the absence of the outbreak of the fifth wave of COVID-19 in Hong Kong and the abolition of dine-in restrictions and social distancing policies by the Hong Kong Government. Since the social distancing measures began to relax in late April 2022, the restaurant operations of the Group had gradually resumed and the revenue had rebounded rapidly thereafter.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business with internally generated cash flows and proceeds received from the Listing. As at 30 June 2023, the Group had short term bank deposits of approximately HK\$212.5 million (as at 31 December 2022: approximately HK\$145.5 million) and cash and cash equivalents of approximately HK\$147.5 million (as at 31 December 2022: approximately HK\$196.5 million). Most bank deposits and cash were denominated in HK\$. The Group will continue to use the internal generated cash flows as a source of funding for future developments.

As at 30 June 2023, the Group's total current assets and current liabilities were approximately HK\$418.8 million (as at 31 December 2022: approximately HK\$428.2 million) and approximately HK\$308.8 million (as at 31 December 2022: approximately HK\$288.1 million) respectively, while the current ratio was about 1.4 times (as at 31 December 2022: about 1.5 times).

As at 30 June 2023, the gearing ratio of the Group was nil (as at 31 December 2022: nil) 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%.

The Group operates a conservative set of treasury policies to ensure that no unnecessary risks are taken with the Group's assets. During the Period, there was no investment in financial products or instruments other than cash or bank deposits were used.

SIGNIFICANT INVESTMENTS

As at 30 June 2023, 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. The Group has no plan for material investments or additions of capital assets as at the date of this announcement.

CHARGES ON GROUP ASSETS

As at 30 June 2023, 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 2023. 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 2023, the Group had 1,919 employees (as at 31 December 2022: 1,768 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 2023, 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 HK\$ and the Group is not exposed to any significant foreign exchange exposure. As at 30 June 2023, 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 2023, the Group did not have any material contingent liabilities.

PROSPECTS

In February 2023, Hong Kong has officially lifted entry restrictions for control of the Pandemic, together with the Pandemic control measures in Mainland China being released, the tourism industry of Hong Kong has gradually recovered. The Hong Kong Government withdrawn the "mask mandate" regulation in March 2023 and launched the new round of consumption voucher scheme in April and July 2023, which boosted the consumer sentiment and acted as resumption catalyst for the local consumption market, paving its way for return to normality. Under the gradual resumption of the Hong Kong economy, the Group is well prepared in various aspects and awaits for the post-Pandemic opportunities.

The tourism and catering market of Hong Kong is complementary to each other. As travel restrictions between Hong Kong and Mainland China fully lifted in February 2023, and the promotion of “Hello Hong Kong” actively carried out by the Hong Kong Government, which gives away free air tickets and vouchers to travelers, together with the organization of large-scale campaigns, exhibitions and international meetings in Hong Kong, travelers and business travelers will be attracted to visit and spend in Hong Kong. Although the number of visitors continually increased after the lifting of travel restrictions, local districts are still relatively quiet after 9 p.m. and the overall consumption market has not fully recovered. The Group believes that with the practical improvement in the economy, different sub-economies will be further strengthened and continue to resume, which in turn will drive the development of Hong Kong in mid-long run. The Group expects that in the second half of 2023, along with the economy resumption, various campaigns, the number of visitors will continue to increase. It is believed that more business development opportunities will be brought to the catering industry as well as promoting our business growth.

In terms of branding, we strengthen our pricing ability and leading position in the market by ways of rejuvenating the existing brands, creating and introducing new brands, increasing number of stores, enhancing digital marketing and product innovation. The Group introduced the franchised café brand “The Matcha Tokyo” from Tokyo 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. Those new brands are welcomed by our customers during the initial phase of investment and have demonstrated steady performance. We will continue to develop different brands and extend our business to customers in all districts.

Although the Hong Kong economy has been recovering, we still face different challenges, especially the pressure of increasing food cost and labour turnover. In response to the high food cost, we actively communicate with various suppliers to procure reasonable supplies based on the principle of lowering transaction costs. On the other hand, we constantly improve our menu by adjusting the menu profile of different brands based on the market condition, and introducing premium ingredients to provide customers with a “high value-for-money” dining experience. In response to the shortage of labour, we have introduced robots and mobile phone ordering system to ease the workload of our staff. In the future, we will introduce more automated systems and AI technologies, with an aim to boost innovation and transformation of our restaurants.

Although the macro-economy is still affected by uncertainties such as interest rate hike cycle, inflation and geopolitics instabilities, the Group is optimistic towards the recovery of local economy. In order to enhance our management and overcome the upcoming challenges, we have established a professional management team to plan ahead for the next phrase of development. Under the leadership of our professional management team, the Group will move on to the next phrase of development, through proactive rejuvenating the existing brands, developing and introducing new brands, expanding our restaurants network, promoting systematic procedures, strengthening digital marketing, continuing our product innovation, and balancing the development of various brands, with an aim to boost business growth and enhancing our market position under a back-to-normal business environment.

DIVIDENDS

This year falls on the fifth anniversary of the Group's listing. To thank all Shareholders for their support along the way especially during the Pandemic, in addition to declaring an interim dividend, the Board has resolved to declare a special dividend of HK\$100 million, to thank all Shareholders. The Board also encouraged Shareholders to spend more at the Group's branches after receiving dividends to support the Group's continued business development, achieving the goal of spending happily and boosting the economy together.

Upon payment of interim and special dividends, the Group will still reserve more than HK\$200 million funds for operation and future development. As the Group had no financial borrowings, the global and local interest rate hikes have not imposed financial burden to the Group. Instead, it has emerged as a relative competitive advantage for the Group. Hoping that all Shareholders will continue to support the Group's development, the Group will do its best to improve products and services for creating value for customer satisfaction.

The Board has resolved to declare payment of an interim dividend of HK4.75 cents per share for the Period (Last Corresponding Period: nil), totalling HK\$38 million, and the payment of a special dividend of HK12.50 cents per share, totalling HK\$100 million, payable to the Shareholders whose name appear on the register of members of the Company (the "**Register of Members**") on Wednesday, 20 September 2023. The interim dividend and special dividend will be paid to the Shareholders on or around Friday, 29 September 2023.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the interim dividend and the special dividend, the Register of Members will be closed from Monday, 18 September 2023 to Wednesday, 20 September 2023, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend and the special 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, 15 September 2023.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best 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 continuation of the implementation of the business plans, the Directors (including the independent non-executive Directors) considered Mr. Wong as the best candidate for both positions and the such arrangement was beneficial to 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 strong independence element in its composition. The Board would continue to periodically review the effectiveness of this arrangement to ensure its alignment with the needs of the Group.

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 2023 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 2023 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, 28 August 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.