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利·寶·閣

Li Bao Ge Group Limited

利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1869)

PROFIT WARNING AND BUSINESS UPDATE

This announcement is made by Li Bao Ge Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Unless otherwise specified, terms used herein shall have the same meanings as those defined in the Company’s announcement dated 28 August 2018 regarding the transfer of listing from GEM to main board.

PROFIT WARNING

The board (the “**Board**”) of directors (the “**Director(s)**”) of the Company wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on a preliminary review of the unaudited consolidated management accounts of the Group for the year ended 31 December 2019 (the “**Year**”) and assessment of the information currently available, the Group is expected to record a loss attributable to owners of the Company of not less than HK\$55 million for the Year which comprised an one-off closure effect of approximately HK\$30 million as described below; whereas the Group recorded a profit attributable to owners of the Company of approximately HK\$2.3 million for the year ended 31 December 2018. The aforesaid loss-making position for the Year represented an extension and worsening of the Group’s loss situation for the first half of the Year and was mainly attributable to the overall decrease in revenue of the Group’s restaurants (those operated throughout both years) as compared to last year. Moreover, due to the close down of the Sheung Wan Restaurant and the Beijing House Restaurant in February 2020, the Group recorded a closure effect on right-of-use assets, certain non-current assets and deferred tax assets of approximately HK\$30 million in aggregate in respect of these restaurants for the Year, leading to the further increase in loss attributable to owners of the Company for the Year. The aforesaid amount of closure effect is only based on a preliminary assessment of the recoverable amounts of the relevant assets, and is subject to change upon finalisation of the final results.

The Directors consider the decrease in revenue was mainly due to, among others, (i) the accelerated downtrend of the Hong Kong and China economy since the second half of 2018, which has been worsened as a result of the intensifying and increasingly gloominess of the situation of the China-US trade war which negatively affected the consumption sentiments of the general public during the Year; and (ii) the social unrest in Hong Kong which occurred since June 2019 and lasted over the second half of 2019 seriously affected the retail and catering sectors in Hong Kong. As such, the Group needed to offer more concessions to attract customers during the Year. Besides, the general food cost inflation, in particular, the further increase in price of frozen meats upon the outbreak of African swine fever in China in the second half of 2018, resulted in an overall decline in the Group's gross profit margin for the Year. As a result, the Group recorded an overall operating loss of not less than HK\$25 million for the Year.

As the Company is still in the process of finalising the final results of the Group for the Year, the information contained in this announcement is only a preliminary assessment by the Board based on the latest information currently available, and is not based on any data or information which is finalised, audited or reviewed by the auditors of the Company. Shareholders and potential investors are advised to read the announcement of the Company in relation to the final results of the Group for the Year carefully.

BUSINESS UPDATE

Closure of the Sheung Wan Restaurant and the Beijing House Restaurant

The Group's two restaurants located in Sheung Wan district, Hong Kong, namely the Sheung Wan Restaurant and the Beijing House Restaurant, which were operated by Excel Linker (Hong Kong) Limited ("**Excel Linker**"), an indirect wholly owned subsidiary of the Company, contributed an aggregate revenue of approximately HK\$58.8 million, HK\$57.1 million and HK\$51.0 million (unaudited), representing approximately 19%, 16% and 15% of the Group's total revenue for the years ended 31 December 2017, 2018 and 2019 respectively. Nevertheless, the operating subsidiary recorded operating loss for each of the three years ended 31 December 2019. In view of the poor financial performance and the foreseeable unfavourable market conditions going forward, the Group ceased the operation of the two restaurants in February 2020 in order to avoid further loss and make available the occupied working capital for other operation needs of the Group.

In addition, Excel Linker received a Writ of Summons together with an indorsement of claim (the "**Indorsement**") dated 31 December 2019 issued in the High Court of The Hong Kong Special Administrative Region (the "**Court Action**") by Foxhill Investments Limited as plaintiff (the "**Plaintiff**") against Excel Linker as defendant (the "**Defendant**"). It was stated in the Indorsement that the Plaintiff's claim against the Defendant was in relation to the breach of the Tenancy Agreement dated 18 April 2018 (the "**Tenancy Agreement**") for wrongfully failing and/or refusing to pay the rent and/or management fees and/or government rates in respect of the premises located at Units 201-202 on the Second Floor of Infinitus Plaza, No.199 Des Voeux Road, Central, Hong Kong since 1 October 2019.

Please refer to the Company's announcement dated 6 January 2020 for more details on the Court Action.

Effect of the novel coronavirus epidemic (the “Epidemic”)

In view of the outbreak of the Epidemic in China and Hong Kong since January 2020, the Group has been paying close attention to the development of the Epidemic and making efforts to prevent and control the spread of the virus. As part of the Group’s efforts to facilitate better prevention and control of the virus and ensure the health and safety of its employees and customers, the Group has been shortening the operation hours of its restaurants in Hong Kong. As regard the Group’s restaurants and tea houses located in Shenzhen, China, they have suspended operation as temporary anti-infection measures since the commencement of Chinese New Year in late January 2020 according to the instructions of the local government and are yet to resume operation up to the date of this announcement. The Company will make further announcements in due course on the progress of the resumption of operation of the Group’s restaurants in China.

Based on the above, the Group currently expects that its financial performance in the first half of 2020 will be significantly deteriorated as compared to the same period in 2019, which is due to the adverse effect arising from the recent outbreak of the Epidemic which has been restricting the opening hours of the Group’s restaurants in Hong Kong and China.

The Group will closely monitor the market situation and the development of the Epidemic, and will adjust its business strategies to cater for the market trend and customer demand in order to improve its financial performance going forward.

Shareholders of the Company and potential investors should exercise caution when dealing in the securities of the Company.

By the order of the Board
Li Bao Ge Group Limited
Chan Chun Kit
Chairman

Hong Kong, 3 March 2020

As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Mr. Lam Kwok Leung Peter, Mr. Wong Ka Wai, Ms. Chan Wai Sze Josephine and Ms. Zhu Xueqin; the non-executive Director is Mr. Chow Yiu Pong David; and the independent non-executive Directors are Mr. Liu Chi Keung, Prof. Wong Lung Tak Patrick and Mr. Yuen Ching Bor Stephen.