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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "Board") of directors (the "Directors") of Li Bao Ge Group Limited (the "Company", together with its subsidiaries, collectively known as the "Group") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2019 (the "Period") together with the comparative figures for the corresponding period in 2018 as set out below. This interim results announcement has been reviewed by the audit committee under the Board (the "Audit Committee") and the Company's auditor. 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 and the Company's prospectus dated 24 June 2016 (the "Prospectus").

FINANCIAL HIGHLIGHTS

For the Period, the Group's operating results were as follows:

- revenue of the Group amounted to approximately HK\$178.8 million, representing a gentle decrease of approximately 2.4% as compared with the corresponding period in 2018.
- loss attributable to owners of the Company amounted to approximately HK\$9.4 million, representing a decrease in profit by approximately HK\$15.1 million as compared with a profit attributable to owners of the Company of approximately HK\$5.7 million for the corresponding period in 2018.
- loss per share was approximately HK1.18 cents.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months end	led 30 June 2018
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	178,792	183,262
Other income	4	380	1,378
Other gains and losses		_	(146)
Cost of materials consumed		(61,668)	(58,314)
Employee benefits expense		(47,558)	(41,724)
Depreciation	5	(27,416)	(8,694)
Other expenses	5	(45,648)	(64,958)
Operating (loss)/profit		(3,118)	10,804
Listing expenses		_	(1,823)
Finance costs	6	(4,868)	(246)
(Loss)/profit before income tax		(7,986)	8,735
Income tax expense	7	(1,461)	(3,071)
(Loss)/profit for the period attributable to owners of the Company Other comprehensive (expense)/income Items that may be reclassified subsequently to		(9,447)	5,664
profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		(99)	2,135
Total comprehensive (loss)/income for the period attributable to owners of the Company		(9,546)	7,799
Basis (loss)/earnings per share	9	HK cent (1.18)	HK cent 0.71

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$</i> '000 (Audited)
ASSETS Non-current assets Property, plant and equipment Right-of-use assets Rental deposits Deposits placed for life insurance policies Deferred tax assets	10 11 12	44,113 135,124 20,690 2,094 8,318 210,339	49,842
Current assets Inventories Trade receivables Deposits, prepayments and other receivables Current tax recoverable Pledged bank deposits Cash and bank balances	13 12 14	13,755 5,123 12,646 1,064 11,007 49,553	15,722 4,014 9,284 1,238 11,002 60,447
Total assets		303,487	181,261
EQUITY Equity attributable to owners of the Company Share capital Reserves	15	8,000 89,144	8,000 115,283
Total equity		97,144	123,283

	Notes	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$</i> '000 (Audited)
LIABILITIES			
Non-current liabilities	1.7	07.420	
Lease liabilities	17	97,428	_ 25
Contract liabilities		105	25 67
Obligations under finance leases Provision for reinstatement costs	18	- 5 117	
Provision for remstatement costs	10	5,117	4,823
		102,650	4,915
Current liabilities			
Trade payables	21	10,095	7,365
Accruals, provisions and deposits received		16,685	18,386
Contract liabilities		13,119	15,860
Bank borrowings	16	12,765	10,567
Lease liabilities	17	50,735	_
Obligations under finance leases		_	195
Current tax payable		294	690
		103,693	53,063
Total liabilities		206,343	57,978
Total equity and liabilities		303,487	181,261
Net current (liabilities)/assets		(10,545)	48,644

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Balance as at 30 June 2019 (unaudited)

Attributable to owners of the Company Exchange (Accumulated losses)/ Share Share Other translation Retained capital premium reserves reserve profits **Total** HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 Balance as at 1 January 2018 (restated) 8,000 55.134 42,396 (927)31.682 136,285 Profit for the period 5,664 5,664 Currency translation differences 2,135 2,135 Total comprehensive income for the period 2,135 5,664 7,799 Dividend paid (12,000)(12,000)Balance as at 30 June 2018 (unaudited and restated) 8,000 55,134 42,396 1,208 25,346 132,084 Balance as at 1 July 2018 (unaudited and restated) 8.000 42,396 1.208 25,346 132,084 55.134 Loss for the period (3,402)(3,402)Currency translation differences (5,399)(5,399)Total comprehensive expense for the period (5,399)(3,402)(8,801)Balance as at 31 December 2018 (audited) (4,191)123,283 8,000 55,134 42,396 21,944 Change in accounting policy – HKFRS 16 (12,593)(12,593)Balance as at 1 January 2019 (restated) 55,134 42,396 (4,191)9,351 110,690 8,000 Loss for the period (9,447)(9,447)Currency translation differences (99)(99)(99) Total comprehensive expense for the period (9,447)(9,546)Dividend paid (Note 8) (4,000)(4,000)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

55,134

42,396

(4,290)

(4,096)

97,144

8,000

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		Six months end	ded 30 June
		2019	2018
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Net cash generated from		19 200	0.170
operating activities		18,200	9,170
Net cash used in investing activities		(1,873)	(1,898)
Net cash used in financing activities		(30,671)	(14,043)
Net decrease in cash and cash equivalents		(14,344)	(6,771)
Cash and cash equivalents at beginning of			
the period		60,447	67,494
Effect of foreign exchange rate changes		(292)	1,502
Cash and cash equivalents at end of the period		45,811	62,225
Analysis of the balances of cash and cash equivalents		40.552	(2.225
Cash and bank balances	1.6	49,553	62,225
Bank overdraft	16	(3,742)	
		45,811	62,225

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1 GENERAL INFORMATION

Li Bao Ge Group Limited (the "Company") was incorporated in the Cayman Islands on 1 September 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Company's shares (the "Shares") were initially listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Listing") since 30 June 2016 (the "Listing Date"). The listing of the Shares was transferred to the Main Board of the Stock Exchange since 5 September 2018 (the "Transfer of Listing").

The Company is an investment holding company and its subsidiaries (collectively, the "Group") are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the People's Republic of China (the "PRC").

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements do not include all the information required for annual financial statements and thereby should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018 ("2018 Annual Report") which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The Group's policies on financial risk management were set out in the financial statements included in the Company's 2018 Annual Report and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2019.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceed its current assets by approximately HK\$10,545,000 at 30 June 2019. In the opinion of the directors of the Company, the Group has a number of sources of finance available to fund its operations. Taking into account of the available banking facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the new standards, amendments and interpretations issued by the HKICPA that are adopted for the first time for the current period's condensed consolidated financial statements. The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 16. The other newly adopted standards or amendments did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

(A) New and amended standards adopted by the Group

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs, which are effective for accounting periods beginning on or after 1 January 2019. The Group has adopted the following new and revised standards for the first time for the current period's condensed consolidated financial statements:

HKFRS 16

HK(IFRIC)-Interpretation 23

Amendment to HKFRS 9

Amendments to HKAS 19

Amendments to HKAS 28

Amendments to HKFRSs

Amendments to HKFRSs

Amendments to HKFRSs

Amendments to HKFRSs

Leases

Uncertainty over Income Tax Treatments

Prepayment Features with Negative Compensation

Plan Amendment, Curtailment or Settlement

Long-term Interests in Associates and Joint Ventures

Amnual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, "Leases", and the related interpretations, HK(IFRIC) 4, "Determining whether an arrangement contains a lease", HK(SIC) 15, "Operating leases – incentives", and HK(SIC) 27, "Evaluating the substance of transactions involving the legal form of a lease". It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balances of right-of-use assets and lease liabilities at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) Definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term lease and leases of low value assets

The Group applies the short-term lease recognition exemption to leases of premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for the lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life.

Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

(iii) Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

(iv) As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 "Revenue from Contracts with Customers" to allocate consideration in a contract to lease and non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of restaurants in Hong Kong and People's Republic of China was determined on a portfolio basis; and
- iv. used hindsight based on facts and circumstance as at date of initial application in determining the lease term for the Group's leases with extention and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK\$120,263,000 and right-of-use assets of approximately HK\$108,002,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 6.05%.

	At 1 January 2019 <i>HK\$'000</i>
Operating lease commitments disclosed at 31 December 2018 Less: Short-term leases recognised on a straight-line basis as expenses Discount arising from conversion into present value by discounting cash flows using the Group's incremental borrowing rate at 1 January 2019	198,736 (10,595)
(weighted average of 6.05%) Operating lease commitments of new leases which has not commenced as	(21,563)
at 1 January 2019 Add: finance lease liabilities recognised as at 31 December 2018	(46,577)
Lease liabilities recognised upon application of HKFRS 16 as at 1 January 2019	120,263
Analysed as Current lease liabilities	43,068
Non-current lease liabilities	77,195
The carrying amount of right-of-use assets as at 1 January 2019 comprises the fo	120,263 llowing:
	At 1 January 2019 HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	108,002
By class: Other properties leased for own use, carried at depreciation cost	108,002
The following table summarises the impact of transition to HKFRS 16 on ret January 2019.	tained profits at 1
	Retained earnings HK\$,000
At 31 December 2018 and 1 January 2019 (Originally stated) Impact of adopting HKFRS 16	21,944 (12,593)
A. 4. 7	0.074

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

9,351

At 1 January 2019 (restated)

Condensed consolidated statement of financial position (extract)	31 December 2018 (As originally presented) HK\$'000	Impacts of adopting HKFRS 16 HK\$'000	1 January 2019 (As restated) HK\$'000
Non-current assets			
Property, plant and equipment	49,842	(1,912)	47,930
Right-of-use assets	_	108,002	108,002
Current liabilities			
Accruals, provision and deposits received	18,386	(1,318)	17,068
Obligations under finance leases	195	(195)	_
Lease liabilities	_	43,068	43,068
Non current liabilities			
Lease liabilities	_	77,195	77,195
Obligations under finance leases	67	(67)	
Net assets	123,283	(12,593)	110,690
Equity Accumulated losses/retained profits	21,944	(12,593)	9,351

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported loss from operations in the Group's consolidated income statement, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

		2019	9		2018
	Amounts reported under HKFRS 16 (A) <i>HK\$</i> '000	Add back: HKFRS 16 depreciation and interest expense (B) HK\$\(^2\)000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) HK\$\sigma^000000000000000000000000000000000000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16		1111 VVV		1111 VVV	1111¢ 000
Operating (loss)/profit	(3,118)	21,323	(24,788)	(6,583)	10,804
Listing expenses Finance costs	(4,868)	4,625		(243)	(1,823) (246)
(Loss)/profit before income tax	(7,986)	25,948	(24,788)	(6,826)	8,735
(Loss)/profit for the period	(9,447)	25,948	(24,788)	(8,287)	5,664

Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:	Amounts reported under HKFRS 16 (A) HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1 and 2) (B) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Cash generated from/(used in) operations	19,821	(24,788)	(4,967)	13,819
Net cash generated from/(used in) operating activities	18,200	(24,788)	(6,588)	9,170
Capital element of lease rentals paid Interest element of lease rentals paid	(20,163) (4,625)	20,163 4,625	-	<u>-</u> -
Net cash (used in)/generated from financial activities	(30,671)	24,788	(5,883)	(14,043)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses.

- (i) whether an entity considers uncertain tax treatments separately;
- (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and
- (iv) how an entity considers changes in facts and circumstances.

The adoption of HK(IFRIC) interpretation 23 did not have any significant impact on the Group's condensed consolidated financial statements.

(B) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

Effective for accounting periods beginning on or after

HKFRS 17 Amendments to HKFRS 3 Amendments to HKFRS 10 and HKAS 28

Amendments to HKAS 1 and HKAS 8

Insurance Contracts
Definition of a Business
Sale or Contribution of Assets
between an Investor and
its Associate or Joint Venture
Definition of Material

1 January 2021 1 January 2020

No mandatory effective date yet determined

1 January 2020

These standards are mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2020. At this stage, the Group does not intend to adopt these standards before their effective date. The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective.

3 SEGMENT INFORMATION

The Chief Operating Decision Maker ("CODM") has been identified as the chief executive officer of the Company who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of profit after income tax. The CODM considers all business is included in a single operating segment.

The Group is principally engaged in the operation of food catering services through a chain of Chinese restaurants, as well as a non-Chinese cuisine restaurant. Information reported to the CODM for the purpose of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, the Group has identified one operating segment – operation of restaurants and no operating segment information is presented.

For the six months ended 30 June 2018 and 2019, there are no single external customers contributed more than 10% revenue of the Group.

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2018 and 2019 and certain non-current assets information as at 31 December 2018 and 30 June 2019 by geographic area.

	Six months ended 30 June		
	2019	2018	
	HK\$'000	HK\$'000	
	(unaudited)	(unaudited)	
Revenue from external customers			
Hong Kong	96,589	90,668	
Mainland China	82,203	92,594	
	178,792	183,262	
	30 June	31 December	
	2019	2018	
	HK\$'000	HK\$'000	
	(Unaudited)	(Audited)	
Non-current assets			
Hong Kong	119,445	13,086	
Mainland China	59,792	36,756	
	179,237	49,842	

The non-current assets information above is based on the locations of the assets and excludes financial assets and deferred income tax assets.

4 REVENUE AND OTHER INCOME

Revenue from the operation of restaurants and other income during the six months ended 30 June 2018 and 2019 are as follows:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue from customers and recognised at point in time		
Revenue from restaurant operations	178,792	181,857
Revenue from sale of food ingredients		1,405
	178,792	183,262
Other income		
Interest income on short-term bank deposits	212	50
Interest income from deposits placed for life insurance policies	71	117
Government incentive	_	1,092
Forfeiture of deposits received	46	15
Miscellaneous income	51	104
	380	1,378
Total revenue and other income	179,172	184,640
Total interest income on financial assets measured at amortised cost	283	167

Disaggregation of revenue from contracts with customers by geographic market is disclosed in Note 3.

5 DEPRECIATION AND OTHER EXPENSES

	Six months ended 30 June		
	2019	2018	
	HK\$'000	HK\$'000	
	(unaudited)	(unaudited)	
Depreciation			
 property, plant and equipment 	5,858	8,694	
- right-of-use assets	21,558		
	27,416	8,694	
Other expenses include the following items:			
Auditors' remuneration			
 audit services 	311	344	
 non audit services 	90	90	
Operating lease expenses			
 Normal rent for premises 	_	24,722	
Contingent rent for premises*	2,033	3,899	
 Rental related to short-term leases 	4,241		

^{*} The contingent rent refers to the operating rentals based on pre-determined percentage to the restaurant revenue less minimum rentals of the respective leases.

6 FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expense on bank borrowings	239	237
Interest expense on finance lease obligations	_	9
Interest expense on lease liabilities	4,629	
Total interest expenses on financial liabilities not at fair value through profit or loss	4,868	246

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
Current tax on profits for the period		
- Hong Kong	173	550
- The PRC	1,204	2,602
	1,377	3,152
Deferred tax		
Origination and reversal of temporary differences	84	(81)
Income tax expense	1,461	3,071

For the six months ended 30 June 2018 and 2019, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime.

According to the PRC Enterprise Corporate Tax Law promulgated by the PRC government, the PRC's statutory income tax rate is 25%. The Company's PRC subsidiaries are subject to income tax at the rate of 25% for the six months ended 30 June 2018 and 2019.

8 DIVIDEND

Final dividend of HK\$4,000,000 for the year ended 31 December 2018 was declared on 25 March 2019, and approved by the Shareholders at the annual general meeting of the Company held on 23 May 2019. The Board of Directors of the Company does not recommend the payment of any dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

9 (LOSS)/EARNINGS PER SHARE

The calculation of basis (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	Six months end	ded 30 June
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/Profit for the period attributable to the owners of the Company	(9,447)	5,664
Number of shares Weighted average number of shares for the purpose of calculating basis earnings per share	800,000,000	800,000,000

The diluted (loss)/earnings per share is equal to basic (loss)/earnings per share as there was no potential dilutive ordinary shares outstanding during the six months ended 30 June 2018 and 2019.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired at cost, property, plant and equipment of approximately HK\$2,085,000 (six months ended 30 June 2018: HK\$7,321,000).

11 RIGHT-OF-USE ASSETS

The Company does not have the option to purchase the right-of-use assets for a nominal amount at the end of the lease terms.

	Premises HK\$'000
Cost As at 1 January 2019 upon initial application of HKFRS 16 (note 2)	108,002
Exchange realignment	20
Additions	48,702
As at 30 June 2019	156,724
Accumulated depreciation	
Charge for the period	21,558
Exchange realignment	42
As at 30 June 2019	21,600
Carry amount	
As at 30 June 2019	135,124

12 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$</i> '000 (Audited)
Rental deposits Utility deposits Other deposits, prepayments and other receivables	20,690 1,839 10,807	19,284 1,703 7,581
Less: Non-current portion – rental deposits	33,336 20,690	28,568 19,284
Current portion	12,646	9,284
B TRADE RECEIVABLES		
	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
Trade receivables Less: allowance for impairment losses	5,222	4,113 99
	5,123	4,014

The Group's sales from its Chinese restaurant operations are mainly conducted in cash or by credit cards. The credit period granted by the Group to its customers ranges from 0 to 30 days. The ageing analysis of trade receivables based on invoice date (net of allowance for impairment losses) is as follows:

30 June	31 December
2019	2018
HK\$'000	HK\$'000
(Unaudited)	(Audited)
4,671	3,298
247	515
176	181
	20
5,123	4,014
	2019 HK\$'000 (Unaudited) 4,671 247 176 29

14 PLEDGED BANK DEPOSITS

13

The balances, which were carried at the prevailing market rates from 0.5% to 0.9% per annum represent deposits pledged to banks to secure short-term bank borrowings (note 16) granted to the Group, and therefore classified as current assets. The pledged deposits will be released upon expiring or termination or upon the settlement of relevant bank borrowings.

15 SHARE CAPITAL

2,000,000,000	Authorised: Ordinary shares of HK\$0.01 each as at 31 December 2018 (audited) and 30 June 2019 (unaudited)
800,000,000	Issued and fully paid: As at 31 December 2018 (audited) and 30 June 2019 (unaudited)
	BANK BORROWINGS
30 June 2019 <i>HK\$'000</i> (Unaudited)	
3,742	Bank overdraft – secured
8,189	Bank borrowings due for repayment within one year – secured
834	Bank borrowings due for repayment after one year which contain a repayment on demand clause – secured
12,765	
30 June 2019 K\$'000 udited) 3,742 8,189	800,0 3

Repayments of bank borrowings based on the scheduled repayment dates set out in the loan agreements are as follows:

	30 June 2019	31 December 2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within one year	11,931	8,118
Over one year but less than two years	834	2,449
	12,765	10,567

The bank loans were guaranteed by the Company together with approximately HK\$11,007,000 (31 December 2018: HK\$11,002,000) pledged bank deposits provided by the Group.

17 LEASE LIABILITIES

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period are as follows:

	At 30 June 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments <i>HK\$</i> '000
Within one year	50,735	51,972
After one year but within two years After two years but within five years After five years	43,702 43,253 10,473	53,477 52,805 19,264
	97,428	125,546
	148,163	177,518
Less: total future interest expenses	_	(29,355)
Present value of lease liabilities	<u>-</u>	148,163

18 PROVISION FOR REINSTATEMENT COSTS

Provision for reinstatement costs is recognised for the costs to be incurred for the reinstatement of the properties used by the Group for its operations upon expiration of the relevant leases.

19 MAJOR NON CASH TRANSACTIONS

For the six months ended 30 June 2019, the Group entered into lease arrangements in respect of the acquisition of right-of-use assets with a total capital value at the inception of the leases of approximately HK\$48,702,000.

For the six months ended 30 June 2018, additions of property, plant and equipment include deposits paid for property, plant and equipment amounting to approximately HK\$5,578,000 which did not involve any cash payment.

20 CAPITAL COMMITMENTS

The Croup had no significant capital commitments as at 30 June 2019 (31 December 2018: approximately HK\$240,000).

21 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
0 to 30 days 31 to 60 days 61 to 90 days	9,819 43 222	6,795 225 171
Over 90 days	10,095	7,365

22 OPERATING LEASE COMMITMENTS

The Group leases various restaurant properties and equipment under non-cancellable and optional operating lease agreements. The lease agreements are between one and ten years, and majority of lease arrangements are renewable at the end of the lease periods with either pre-set increment rate or market rate to be agreed with landlords.

The operating leases of certain restaurant properties also call for additional rentals, which will be based on a certain percentage of revenue of the operation being undertaken therein pursuant to the terms and conditions as stipulated in the respective rental agreements. As the future revenue of these restaurants could not be accurately determined as at the reporting date, the relevant contingent rentals have not been included.

Upon the adoption of HKFRS 16 for the first time for the six months ended 30 June 2019, the disclosure of minimum operating lease payments under non-cancellable operating leases as at 30 June 2019 are only applicable to those operating leases with remaining lease term of less than one year as at that date, and are detailed below.

Minimum lease payments under non-cancellable operating leases in respect of properties were payable as a lessee as follows:

	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
No later than 1 year	7,514	54,907
Later than 1 year and no later than 5 years	_	111,365
Later than 5 years	<u>-</u>	32,464
	7,514	198,736

23 RELATED PARTY TRANSACTIONS

Transactions with related parties

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions with its related parties during the relevant periods:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Rental expenses paid to Richfield Develop Limited (Note)	107	107

Note:

Richfield Develop Limited is a company controlled by the Ultimate Controlling Shareholders. Rental expenses paid to the related company were charged at terms mutually agreed by both parties.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group is a Chinese restaurant group recognised for delivering Cantonese cuisine and Chinese banquet and dining services.

For the six months ended 30 June 2019, the Group operated five full-service restaurants in Hong Kong and two full-service restaurants in Shenzhen, the PRC to provide Cantonese cuisine under the brand name of "Star of Canton (利寶閣)". The Group also operated a Jingchuanhu cuisine restaurant in Hong Kong under the brand name of "Beijing House (京香閣)" and a Thai cuisine restaurant (the "Thai (Shenzhen) Restaurant") in Shenzhen, the PRC. However, due to continued unsatisfactory customer visits of the Thai (Shenzhen) Restaurant since its opening, the Group closed down the restaurant in May 2019 and refurbished the shop into a full-service small-scale Cantonese restaurant under the brand name of "Star of Canton Dim Sum Tea House (利寶閣點心茶居)" which was opened in August 2019. During the Period, the Group opened its first Thai cuisine restaurant in Hong Kong in June 2019 under the brand name of "La Maison D' Elephant (象屋)" (the "Thai (Mongkok) Restaurant") in a shopping mall in Mongkok district. All of the Group's restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations. The Group maintains a business philosophy of offering quality food and services at reasonable prices under an elegant and comfortable dining environment. All of the Group's restaurants target at mid-to-high end spending customers.

As at 30 June 2019, the Group had,

In Hong Kong:

- (i) six Chinese restaurants, two of which were located in Sheung Wan (i.e. the Sheung Wan Restaurant and the Beijing House Restaurant) and the remaining four were located in Tsim Sha Tsui (i.e. The One Restaurant), Causeway Bay (i.e. the CWB Restaurant), Olympian City (i.e. the Olympian Restaurant) and Kwun Tong (i.e. the Kwun Tong Restaurant), respectively;
- (ii) one Thai cuisine restaurant (i.e. the Thai (Mongkok) Restaurant) located in Mongkok;

In Shenzhen, the PRC:

- (iii) two Chinese restaurants, which were located in Futian District (i.e. the Shenzhen Restaurant) and Baoan District (i.e. the Shenzhen Uniwalk Restaurant), respectively; and
- (iv) one small-scale Cantonese dim sum tea house (i.e. the Star of Canton Dim Sum Tea House) located in Futian District, which was undergoing renovation and opened in August 2019.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group recorded a total revenue of approximately HK\$178.8 million, representing a decrease of approximately 2.4% as compared to approximately HK\$183.3 million for the six months ended 30 June 2018.

The Group's total revenue for the six months ended 30 June 2019 mainly comprised the aggregate revenue of the six Chinese restaurants in Hong Kong of approximately HK\$95.9 million, including revenue from the Kwun Tong Restaurant which was opened in December 2018 (2018: five restaurants of approximately HK\$89.3 million), the revenue of the two Chinese restaurants in Shenzhen of approximately HK\$80.6 million (2018: approximately HK\$89.1 million), the revenue of the Thai (Shenzhen) Restaurant (closed in May 2019) of approximately HK\$1.6 million (2018: approximately HK\$3.5 million), and the revenue of the Thai (Mongkok) Restaurant (opened in June 2019) of approximately HK\$0.7 million.

Excluding the revenue contribution of approximately HK\$17.2 million by the Kwun Tong Restaurant which was opened in December 2018 and HK\$0.7 million by the Thai (Mongkok) Restaurant which was opened in June 2019 (which are not applicable for the corresponding period in 2018), the aggregate revenue of the Group's restaurants in Hong Kong of approximately HK\$78.7 million for the six months ended 30 June 2019 decreased by approximately 11.9% as compared to the corresponding period in 2018. Besides, the aggregate revenue of the Group's two Chinese restaurants in Shenzhen decreased by approximately 9.5% over the same periods. The Directors consider such decrease in revenue for both Hong Kong and Shenzhen regions was mainly due to, among others, 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 and consequently affected the retail and catering sectors during the Period.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK\$117.1 million for the six months ended 30 June 2019, representing a decrease of approximately 6.3% from approximately HK\$124.9 million for the six months ended 30 June 2018, which was in line with the decrease in revenue during the Period. Nevertheless, the Group's overall gross profit margin decreased from approximately 68.2% for the six months ended 30 June 2018 to approximately 65.5% for the six months ended 30 June 2019. Such decrease was mainly due to (i) the Group offered more concessions to attract customers in view of the sluggish economy and the catering sector, and (ii) 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, which resulted in an overall decline in the Group's gross profit margin for the Period.

Employee benefits expense

Employee benefits expense was approximately HK\$47.3 million for the six months ended 30 June 2019 (2018: approximately HK\$41.7 million), representing an increase of approximately 13.3% as compared to the corresponding period in 2018, which was mainly due to the addition of workforce for the Kwun Tong Restaurant which was opened in December 2018. Thanks to the Group's staff cost control measures, the employee benefits expense of its restaurant staff (excluding that of the Kwun Tong Restaurant) maintained at a stable level in terms of percentage of revenue as compared to the corresponding period of the last year. Going forward, the Group will continue to closely monitor the cost control in respect of staff salaries, and at the same time regularly review the work allocation of the staff in order to improve the work efficiency and maintain a quality standard of service.

Depreciation

Depreciation for the six months ended 30 June 2019 included approximately HK\$21.6 million (2018: Nil) in respect of right-of-use assets in relation to the Group's leased properties, which was recognised upon the adoption of the new accounting standard HKFRS 16 "Leases" with effect from 1 January 2019.

Other expenses

Other expenses mainly include, but not limited to, expenses incurred for the Group's restaurant operation, consisting of operating lease expenses, building management fee and air conditioning charges, cleaning and laundry expenses, utility expenses, service fees paid to temporary workers, advertising and promotion. For the six months ended 30 June 2019, other expenses amounted to approximately HK\$45.6 million (2018: approximately HK\$65.0 million), representing a decrease of approximately HK\$19.3 million or 29.7% which was mainly due to the combined effects of (i) the decrease in operating lease expenses by approximately HK\$24.5 million as a result of the adoption of the new accounting standard HKFRS 16 "Leases" with effect from 1 January 2019, where operating lease expenses were no longer recognised for the majority of the Group's leased properties, and instead, depreciation on right-of-use assets and the relevant interest expense on lease liabilities were recognised; which was partly offset by (ii) the incurring of other operating expenses of approximately HK\$4.5 million for the Kwun Tong Restaurant which was opened in December 2018.

Finance costs

Finance costs for the six months ended 30 June 2019 included approximately HK\$4.6 million (2018: Nil) in respect of interest expense on lease liabilities in relation to the Group's leased properties, which was recognised upon the adoption of the new accounting standard HKFRS 16 "Leases" with effect from 1 January 2019.

Loss attributable to owners of the Company

For the six months ended 30 June 2019, the Group recorded a loss attributable to owners of the Company of approximately HK\$9.4 million, whereas the Group recorded a profit attributable to owners of the Company of approximately HK\$5.7 million for the six months ended 30 June 2018. Such loss-making position for the six months ended 30 June 2019, representing a decrease in net profit by approximately HK\$15.1 million as compared to the corresponding period in 2018, was mainly due to the combined effects (before the effect of adoption of HKFRS 16 "Leases" which does not have cash flow impact) of (i) the incurring of aggregate operating losses of approximately HK\$8.6 million in respect of the Group's restaurant operations in Hong Kong (excluding the Kwun Tong Restaurant and the Thai (Mongkok) Restaurant which were opened in December 2018 and June 2019 respectively and not applicable for the corresponding period in 2018) as compared to an aggregate operating profit of approximately HK\$2.0 million for the corresponding period in 2018; (ii) the incurring of aggregate operating losses of approximately HK\$2.2 million in respect of the Kwun Tong Restaurant and the Thai (Mongkok) Restaurant during their initial stages of operations; (iii) the decrease in aggregate operating profit of the Group's restaurant operations in Shenzhen, the PRC by appropriately HK\$6.6 million; and (iv) the incremental loss effect of approximately HK\$1.2 million (i.e. the recognition of depreciation on right-of-use assets and interest expenses on lease liabilities for the current period as compared to the recognition of operating lease expenses for the corresponding period in 2018) upon the adoption of HKFRS 16 "Leases"; which were partly offset by (v) that there were listing expenses of approximately HK\$1.8 million incurred for the six months ended 30 June 2018 while there was no such expense incurred for the current period; and (vi) the decrease in income tax expenses by approximately HK\$1.6 million.

Liquidity, financial resources and capital structure

Capital Structure

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to its shareholders, return capital to its shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital on the basis of the gearing ratio. The Group's strategy, which was unchanged during the six months ended 30 June 2019, was to lower the gearing ratio to an acceptable level.

As at 30 June 2019, the Group's cash and bank balances were approximately HK\$49.6 million, representing a decrease of approximately HK\$10.9 million as compared with approximately HK\$60.4 million as at 31 December 2018. The decrease was mainly due to the net cash used in financial activities for the six months ended 30 June 2019 (which was mainly represented by lease rentals paid, see the paragraph headed "Impact on the financial result, segment results and cash flows of the Group" under Note 2(A)(c) to the condensed consolidated financial statements), and the payment of final dividend for the year ended 31 December 2018.

As at 30 June 2019, cash and bank balances and restricted bank deposits of approximately HK\$60.6 million included HK\$16.9 million and HK\$43.7 million which were denominated in Hong Kong dollars and Renminbi, respectively.

Indebtedness and Banking Facilities

As at 30 June 2019, the Group had bank borrowings of approximately HK\$12.8 million, which were all denominated in Hong Kong dollars and bore the interest rate ranging from Hong Kong Interbank Offer Rate ("HIBOR") plus 2.0% to HIBOR plus 3.0% per annum and were secured by pledged bank deposits of approximately HK\$11.0 million.

As at 30 June 2019, the Group's gearing ratio was approximately 13.3%, which is calculated based on the interest-bearing debts (comprising bank borrowings and obligations under finance leases) divided by total equity attributable to owners of the Company as at 30 June 2019 and multiplied by 100%. The Directors, taking into account the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 30 June 2019 was reasonable.

Foreign Exchange Exposure

Most of the income and expenditures of the Group are denominated in HK\$ and RMB, which are the functional currencies of the respective group entities. Even HK\$ is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the Period. Thus there is no significant exposure expected on RMB transactions and balances. Hence, the Group does not have any material foreign exchange exposure. During the Period, the Group had not used any financial instruments for hedging purposes.

Securities in issue

As at 30 June 2019, there were 800,000,000 ordinary shares in issue. There was no movement in the issued share capital of the Company during the six months ended 30 June 2019.

Commitments

As at 30 June 2019, the Group had no significant outstanding contracted capital commitments.

Charge on Assets

As at 30 June 2019, the Group pledged its bank deposits of approximately HK\$11.0 million as securities for the Group's bank borrowings of HK\$12.8 million. Save as disclosed above, the Group did not have any charge over assets.

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 587 employees as at 30 June 2019. The employee benefits expense, including Directors' emoluments, of the Group was approximately HK\$47.6 million and HK\$41.7 million for the six months ended 30 June 2019 and 2018, respectively. The remuneration policy of the Group is based on merit, performance and individual competence.

The Directors and the senior management of the Company (the "Senior Management") receive compensation in the form of salaries and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group regularly reviews and determines the remuneration and compensation package of the Directors and the Senior Management by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the Senior Management and the performance of the Group.

The remuneration committee of the Board reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the share option scheme adopted by the Company on 16 June 2016. During the six months ended 30 June 2019, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Directors do not recommend any payment of dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

Prospects

The successful Listing and the Transfer of Listing marked major milestones as well as a new chapter of the Company. However, due to the uncertainties of the Hong Kong and China economies, the Directors anticipate that the Group's business will face various challenges in the foreseeable future. The Group's key risk exposures and uncertainties are summarised as follows:

- (i) the Group's future success relies heavily on its ability to constantly offer menu items, creatively-designed banquet and dining services based on changing market trends and changing tastes, dietary habits, expectations and other preferences of the Group's target customers. As such, significant costs of surveying and researching customer trends and preferences and developing and marketing new menu items, banquet and dining services may be required, this may place substantial strain on the Group's managerial and financial resources;
- (ii) the Group may fail to obtain leases for desirable locations for new restaurants or fail to renew existing leases on commercially acceptable terms, which would have a material adverse effect on the Group's business and future development;
- (iii) the operation of the Group may be affected by the price of the food ingredients, including the price of the imported food ingredients which will be affected by the floating of the foreign currencies;
- (iv) there may be labour shortages in the future and competition for qualified individuals in the food and beverage industry may be intense;
- (v) the worsening of the Hong Kong and China economies 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 and consequently affected the retail and catering sectors; and

(vi) the recent series of demonstrations in Hong Kong against an extradition bill proposed by the Hong Kong government seriously affected the retail and catering sectors, including certain regions where the Group operates.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

Nonetheless, the management of the Company is optimistic that the Group can succeed and enhance the shareholders' value in the medium to long run, based on the years of experience of the senior management of the Company in managing Chinese restaurant business in Hong Kong and Shenzhen, the PRC and its business strategies as detailed below.

The operations of the Kwun Tong Restaurant and the Thai (Mongkok) Restaurant, which were opened in December 2018 and June 2019 respectively, are expected to be gradually put on track. Although both restaurants incurred operating losses during the six months ended 30 June 2019, the Directors consider their financial performance would be improved in the rest of 2019.

Besides, the restaurant premises of the Group's another new Chinese restaurant, namely the Shenzhen One Avenue Restaurant was initially expected to be handover for renovation in mid-2017 and the restaurant was expected to commence operation around the end of 2017. However, the Group was given to understand from the relevant landlord that the completion of construction of the relevant shopping mall was delayed due to the extra time needed to amend and complete various construction works to the satisfaction of the relevant government departments, and to achieve overall construction completion thereafter. As such, the restaurant premises was delayed for handover to the Group for commencing renovation in June 2019. Consequently, the Directors currently expect that the Shenzhen One Avenue Restaurant would commence operation around the fourth quarter of 2019. Albeit the substantial delay of the opening of the Shenzhen One Avenue Restaurant from the original plan, the Directors consider such delay would not have material adverse impact on the Group's expansion plan in the PRC, as it has always been the Group's strategy to adopt a cautious and progressive approach in respect of its business development in the PRC. In respect of the portion of the net proceeds raised from the Placing, i.e. approximately HK\$20.0 million for the purpose of funding the renovation expenditure of the Shenzhen One Avenue Restaurant, the relevant proceeds has been set aside and deposited in banks for such usage.

Going forward, the Group's objective is to become a reputable multi-brand restaurant group with a diverse customer base in Hong Kong and the PRC to provide Cantonese and Jingchuanhu cuisines, Chinese banquet and dining services for large-scale events, as well as other non-Chinese cuisines. Other than the new Thai (Mongkok) Restaurant, the Group currently does not have specific plan for opening other non-Chinese cuisine restaurants. Given that it is the Group's business philosophy to offer quality food and services at reasonable prices under an elegant and comfortable dining environment, the Group would target to capture the mid-to-high end spending customers when considering the opening of any new non-Chinese cuisine restaurants in the future, in order to maintain the Group's positioning in the mid-to-high end catering market. The Group will continue to utilise its available resources to implement its business strategies, namely, expansion in Hong Kong with multi-brand strategy, progressive expansion in the PRC market, continuing promotion of brand image and recognition through marketing initiatives, enhancement of existing restaurant facilities and strengthening of staff training aiming to attract more new customers. The Group will also consider the expansion of its catering business into other types of cuisines when opportunities arise, taking into account the Group's available resources, with the aim of optimizing the return to its Shareholders.

Use of proceeds from the Listing

The shares of the Company were listed on the GEM of the Stock Exchange on 30 June 2016 with net proceeds received by the Company from the Placing in the amount of approximately HK\$59.1 million after deducting underwriting, commissions and all related expenses.

As at 30 June 2019, the net proceeds from placing were applied as follows:

	Planned use of proceeds as stated in the Prospectus up to 31 December 2018 HK\$'000	Actual use of proceeds up to 30 June 2019 HK\$'000
Progressive expansion in the PRC market	48,000	28,000
Enhancement of existing restaurant facilities	1,500	1,500
Enhancement of marketing and promotions	3,000	3,000

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

As at 30 June 2019, approximately HK\$32.5 million out of the net proceeds from the Listing had been used. The unused net proceeds as at 30 June 2019 was related to the fund set aside for the renovation cost for the Shenzhen One Avenue Restaurant which is expected to be opened in the fourth quarter of 2019. The portion of net proceeds yet to be used were deposited in licensed banks in Hong Kong and the PRC.

The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly evaluate the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group.

Events after the reporting period

The Board is not aware of any important event affecting the Group since the end of 30 June 2019 up to the date of this announcement.

OTHER INFORMATION

Directors' Interests in Competing Business

Set out below are details of certain catering businesses of the Controlling Shareholders which were not included into the Group as at the date of this announcement. As disclosed in the Prospectus, the Controlling Shareholders were engaged in such businesses as at the date of Listing. For further details, please refer to the section headed "Relationship with Controlling Shareholders – Excluded Catering Businesses" in the Prospectus.

EXCLUDED CATERING BUSINESSES

Li Jia Cha Chaan Teng (麗嘉茶餐廳)

As at the date of this announcement, Mr. Chan, one of the Controlling Shareholders, an executive Director, the chairman of the Board and the chief executive officer of the Company, held 100% of the interest in a cha chaan teng named Li Jia Cha Chaan Teng (麗嘉茶餐廳) located at the same building where the Shenzhen Restaurant is located (the "Li Jia Cha Chaan Teng"). The Li Jia Cha Chaan Teng is a Hong Kong-style cafe that serves Asian and Western foods in a casual environment which commenced business in November 2014.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the business of the Li Jia Cha Chaan Teng and the Group's business and any competition between the two businesses is remote due to difference in terms of (i) operation model, (ii) target customers, (iii) management, (iv) staff and (v) location and variety of selections for customers.

Taking into account the above and the fact that: (i) the Group's restaurants aim at providing exquisite cuisine to customers with medium to high average spending and has no intention to step in the business of cha chaan teng in near future; and (ii) the Group intends to utilise its funding to expand its current business, the Directors confirm that the Group has no present intention to acquire the Li Jia Cha Chaan Teng. Mr. Chan has undertaken to the Group that (i) in case of disposal of any interest in the Li Jia Cha Chaan Teng, he shall promptly notify the Group in writing and the Group shall have the first right of refusal to acquire the interest in the Li Jia Cha Chaan Teng to be disposed of by Mr. Chan within 30 days (or such longer period the Group is required to complete the approval procedures required under the Listing Rules from time to time) after receipt of the notice from Mr. Chan; and (ii) that so long as he holds any beneficially interest in the Li Jia Cha Chaan Teng, he will procure that the Li Jia Cha Chaan Teng will not engage in any business that will or will likely compete with the Group's business.

The Group shall only exercise the right of first refusal upon approval of all the independent non-executive Directors (who do not have any interest in such transaction). Mr. Chan and the other conflicting Director (if any) shall abstain from participating in and voting at and shall not be counted as quorum at the meeting of the Directors for considering whether the Group will exercise the first right of refusal.

Hong Wo Kok Restaurant (康和閣酒家)

As at the date of this announcement, Mr. Ho, one of the Controlling Shareholders, held 80% of the interest in the company which has been operating a Chinese restaurant under the name of "Hong Wo Kok Restaurant" (the "Old Hong Wo Kok Restaurant"). The Old Hong Wo Kok Restaurant commenced business in November 2014 and serves Chinese cuisine.

Mr. Ho opened another Chinese Restaurant under the name of "Hong Wo Kok Restaurant" in September 2018 (the "New Hong Wo Kok Restaurant", together with the Old Hong Wo Kok Restaurant, the "Hong Wo Kok Restaurants"). The New Hong Wo Kok Restaurant has dining rooms with mahjong facilities serving Chinese cuisine.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the business of the Hong Wo Kok Restaurants and the Group's business and that any competition between the two businesses is remote due to difference in terms of (i) geographical locations, (ii) operation model, (iii) target customers, (iv) management and (v) staff.

In terms of target customers, the Directors noted that all of the Group's restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations, and that the Group's restaurants target at mid-to-high end spending customers from the local neighborhood, office and tourists with the average spending of over HK\$200 per head. On the other hand, the Hong Wo Kok Restaurants are located at Whampoa Garden, a large private housing estate in Hung Hom District which is a major residential area. To the best knowledge of the Directors upon due inquiry, the Hong Wo Kok Restaurants target residents from the local neighborhood with the average spending of around HK\$100 per head.

Save as disclosed in the above, the Directors were not aware of any other plan for business expansion by the Hong Wo Kok Restaurants. Taking into account of the aforesaid factors, the Directors confirm that the Group has no present intention to acquire the Hong Wo Kok Restaurants in near future.

Mr. Ho has undertaken to the Group that as long as he retains any equity interest in the Hong Wo Kok Restaurants, he will not agree to be appointed as any director or management of any member of the Group.

Prince Cafe (太子茶餐廳)

As at the date of this announcement, Ms. Tsui Y. Y., one of the Controlling Shareholders, has been operating a cha chaan teng named Prince Cafe (太子茶餐廳) (the "**Prince Cafe**") located in Lei Yue Mun, Kowloon, Hong Kong. The Prince Cafe is a Hong Kong-style cafe that serves Asian and Western foods in a casual environment which commenced business in April 2014.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the business of the Prince Cafe and the Group's restaurant business and any competition between the two businesses is remote due to difference in terms of (i) geographical locations, (ii) operation model, (iii) target customers, (iv) management and (v) staff.

Given the above, the Directors confirm that the Group has no present intention to acquire the Prince Cafe in near future.

Ms. Tsui Y. Y. has undertaken to the Group that as long as she retains any interest in the Prince Cafe, she will not agree to be appointed as any director or management of any member of the Group.

Prince Roasted Meat Restaurant (太子燒味餐廳)

As at the date of this announcement, Mr. Tsui K. F., Mr. Lam, Ms. Tsui Y. Y. and Mr. Tsui C. K., each of them being a Controlling Shareholder and Mr. Lam being an executive Director and the compliance officer of the Company, held, in aggregate, 75% shareholding in a company which operates a cha chaan teng named Prince Roasted Meat Restaurant (太子燒味餐廳) (the "Roasted Meat Cha Chaan Teng") located in Shatin, New Territories, Hong Kong. The Roasted Meat Cha Chaan Teng is a Hong Kong-style cafe that serves Asian food, in particular roasted meat with rice, in a casual environment which commenced business in June 2016.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the businesses of the Roasted Meat Cha Chaan Teng and the Group's restaurants and any competition between the two businesses is remote due to difference in terms of (i) geographical locations, (ii) operation model, (iii) target customers, (iv) management and (v) staff.

Given the above, the Directors confirm that the Group has no present intention to acquire the Roasted Meat Cha Chaan Teng in near future.

Each of Mr. Tsui K. F., Ms. Tsui Y. Y. and Mr. Tsui C. K. has undertaken to the Group that as long as he/she retains any interest in the Roasted Meat Cha Chaan Teng, he/she will not agree to be appointed as any director or management of any member of the Group.

On 16 June 2016, Zhao Tian, Mr. Chan, Mrs. Chan, Bright Creator, Hong Cui, Mr. Wong, Sun Foo Sing, Sky Gain, Mr. Ho, Mr. Tsui K. F., Mr. David Chow, Mr. Anthony Chow, Mr. Lam, Ms. Tsui Y. Y., Mr. Tsui C. K. and Mr. Tam (each a "Covenantor" and collectively the "Covenantors") have entered into a deed of non-competition (the "Deed of Non-competition") in favour of the Company and its subsidiaries. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of its

subsidiaries) that, save and except as disclosed in the Prospectus, during the period that the Deed of Non-competition remains effective, she/he/it shall not, and shall procure that her/his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within Hong Kong and such other parts of the world where any member of the Group may operate from time to time, save for the holding of not more than 5% shareholding interests (individually or with her/his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with her/his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with her/his/its close associates).

The Directors confirmed that the undertakings contained in the Deed of Non-competition have been fully complied with by the Group and the Covenantors since the Company's listing on GEM up to the date of this announcement.

On 23 August 2018, the Covenantors and the Company entered into a supplemental deed confirming that the Deed of Non-Competition shall remain in full force and effect notwithstanding the transfer of listing of Shares from GEM to Main Board (the "Supplemental Deed").

Save as disclosed above and as of the date of this announcement, none of the Directors or Controlling Shareholders or their respective close associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, nor any other conflict of interest which any such person has or may have with the Group.

Corporate Governance

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") in Appendix 14 of the Listing Rules. For the six months ended 30 June 2019, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the Code, except for certain deviations as specified with considered reasons for such deviations as explained below.

Under Code Provision A.2.1 of the Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the six months ended 30 June 2019, the Company did not separate the roles of chairman and chief executive officer of the Company. Mr. Chan was the chairman and also the chief executive officer of the Company responsible for overseeing the operations of the Group during the Period. In view of the fact that Mr. Chan has been operating and managing the Group since 1998, the Board believed that it was in the best interests of the Group to have Mr. Chan taking up both roles for effective management and business development. The Board also believed that vesting the roles of both chairman and chief executive officer in the same person had the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although Mr. Chan performed both roles of chairman and chief executive officer, the division of responsibilities between the two roles was clearly established. While the chairman was responsible for supervising the functions and performance of the Board, the chief executive officer was responsible for the management of the Group's business. The Board considered that the balance of power and authority for the present arrangement would not be impaired given the appropriate delegation of the power of the Board to the Senior Management for the day-to-day management of the Group, and the effective functions of the independent non-executive Directors representing at least one-third of the Board such that no individual had unfettered power of decisions. This structure would also enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the required standard of dealings set out in the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the six months ended 30 June 2019.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 June 2019.

The Company did not redeem any of its listed securities during the six months ended 30 June 2019.

Share Option Scheme

The share option scheme of the Company (the "Share Option Scheme") was adopted pursuant to a resolution passed by the Company's shareholders on 16 June 2016 for the primary purpose of providing eligible participants an opportunity to have a personal stake in the Company and to motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the Share Option Scheme include any employees, any executives, non-executive Directors (including independent non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Share Option Scheme became effective on 30 June 2016 (the "Listing Date") and, unless otherwise cancelled or amended, will remain in force for 10 years commencing on the Listing Date, the principal terms of which were summarised in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus.

No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the six months ended 30 June 2019 and there were no outstanding share options under the Share Option Scheme as at 30 June 2019.

Audit Committee and Review of Accounts

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee reviews, amongst others, the financial information of the Group, the relationship with and terms of appointment of the external auditors, and the Company's financial reporting system, internal control system and risk management system.

The Audit Committee consists of three independent non-executive Directors, chaired by Prof. Wong Lung Tak Patrick and the other two members are Mr. Tam Tak Kei Raymond and Mr. Liu Chi Keung.

The unaudited interim financial results of the Group for the six months ended 30 June 2019 have been reviewed by the Audit Committee and the Company's auditor, namely, Ting Ho Kwan & Chan CPA Limited.

By Order of the Board
LI BAO GE GROUP LIMITED
Chan Chun Kit
Chairman and Executive Director

Hong Kong, 29 August 2019

As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Mr. Lam Kwok Leung Peter, Mr. Wong Ka Wai and Mr. Chow Yiu Pong David and the independent non-executive Directors are Mr. Liu Chi Keung, Prof. Wong Lung Tak Patrick and Mr. Tam Tak Kei Raymond.