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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)

SUPPLEMENTAL ANNOUNCEMENT INSIDE INFORMATION – POTENTIAL LITIGATION

This announcement is made by Li Bao Ge Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 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).

Reference is made to the Company’s announcement dated 9 January 2020 (the “**Announcement**”) on the equity transfer agreement between Li Bao Tea House (Shenzhen) Catering Limited (利寶茶居(深圳)餐飲有限公司) (“**Li Bao Tea House**”) (an indirect wholly-owned subsidiary of the Company) and the Vendors (the “**Equity Transfer Agreement**”) and the Company’s announcement dated 19 November 2021 (the “**II Announcement**”) together with the Announcement collectively referred to the “**Announcements**”) in relation to the Fraud Case. Capitalised terms used herein shall have the same meanings as those defined in the Announcements, unless otherwise specified.

This announcement serves to provide the Shareholders and potential investors with supplemental information in relation to the Fraud Case disclosed in the II Announcement.

In August 2020, the Group sent its financial officer to take over the accounting records of Yaoliang (Shanghai) Food Company Limited* (耀良(上海)食品有限公司) (“**Yaoliang**”) upon the Completion of acquisition of Yaoliang. It was then found that (i) the cash level of approximately RMB7 million as at 31 December 2019 based on the unaudited financial information (the “**Dec-2019 Unaudited Financial Information**”) reflected in Yaoliang’s unaudited management accounts provided to the Group before entering into the Equity Transfer Agreement in fact represented accumulated cash advanced to Luo Lu, one of the Vendors (the “**Cash Advance**”); and (ii) the inventory level based on Yaoliang’s management accounts as at 30 June 2020 decreased by approximately RMB4 million as compared to the amount as at 31 December 2019 based on the Dec-2019 Unaudited Financial Information.

Based on the understanding of the Group, the decrease in inventory level during the period from December 2019 up to the time before the completion of the acquisition (the “**Pre-Completion Period**”) was mainly due to the subsequent adjustment of stock-count discrepancies, which, together with the operating loss incurred during the Pre-Completion Period, resulted in the record of deficiency in net assets of approximately RMB9 million as at 30 June 2020. The Group considered such decrease in net assets within a short period of time out of its expectation even taking into account the adverse effect on business amid the COVID-19 pandemic, and was attributable to the incorrect inventory records (due to stock count discrepancies unadjusted) and the operating inefficiencies of Luo Lu as the then management of Yaoliang during the Pre-Completion Period.

According to the Equity Transfer Agreement, the Vendors warranted that they shall bear and rectify any loss and liabilities due to unlawful acts, wrongdoing or malpractices in relation to Yaoliang incurred before the Completion. As the Company considered the aforesaid record of deficiency in net assets of Yaoliang prior to Completion was due to the malpractices, i.e. the aforesaid incorrect inventory records and the operating inefficiencies of the Vendors, after enquiries and negotiation with the Vendors, Luo Lu agreed to give an undertaking (the “**Undertaking**”) to the Group to compensate for the aforesaid deficiency in net assets incurred prior to the Completion at the agreed amount of approximately RMB8 million (the “**Compensation Amount**”) which was recorded as an amount due from Luo Lu in the books of Yaoliang at Completion. According to the Undertaking, Luo Lu agreed to pledge his approximately 20.9% equity interests in Yaoliang to the Group as security (the “**Security**”) for repayment of the Compensation Amount according to the agreed repayment schedule and methodology (e.g. repaying certain portion of the Compensation Amount into a specific bank account of Yaoliang for direct settlement of certain bank loans of Yaoliang).

As Yaoliang had been operating its business with stable income, and the Group had reached agreement with the Vendors in relation to the net assets position of Yaoliang at Completion, the Undertaking and the Security from Luo Lu, the Group considered the matter resolved.

In August 2021, the Group later discovered that Luo Lu had used Yaoliang’s own fund for settlement of certain bank loans of Yaoliang instead of making partial repayment of the Compensation Amount for such settlement, which violated the agreed repayment schedule and methodology of the Undertaking. Besides, as Luo Lu, being the legal representative and management of Yaoliang, failed to operate the business and manage Yaoliang in a proper manner and follow the instructions of the Group, the Group resolved to dismiss him, and accordingly requested him to return the company seal of Yaoliang and proceed to change the legal representative of Yaoliang to another person nominated by the Group, however, Luo Lu refused to do so (the “**Misbehaviors**”).

In September 2021, the Group, upon investigation, found that Luo Lu may be in personal financial difficulties, and as such, requested Luo Lu to fully settle the Compensation Amount immediately. Nevertheless, Luo Lu failed to do so, and the Group considered him defaulted his Undertaking for repayment of the Compensation Amount (the “**Default of Repayment**”). The Group, taking into account the Misbehaviors and the Default of Repayment, upon consulting its PRC lawyers, reported the Fraud Case to the Shanghai Police.

In November 2021, the Group was informed by its PRC lawyers that the Shanghai Police decided not to open a case in relation to the Fraud Case by reason that there was no fact of crime [沒有犯罪事實].

Although the Board considered the Fraud Case did not and will not have any material adverse impact on the ordinary operation and financial position (in terms of cash flow situation) of the Group, it considered the matter which involved certain disputes with the Vendors as aforementioned in respect of the Group's recent acquisition, may be price-sensitive in nature and decided to publish the II Announcement accordingly.

As the Cash Advance had already been corrected and the deficiency in net assets prior to Completion had been agreed to be compensated by the Vendors and reflected as part of the completion accounts based on the agreed Compensation Amount, there was no false financial data upon rectification at Completion.

The Board considered the Compensation Amount which was defaulted in repayment by Luo Lu was immaterial and the dispute matter did not and will not have any material adverse impact on the Group's overall ordinary operation and financial positions in terms of its cash flow situations. Nevertheless, upon being informed by the Shanghai Police that the reported case was not of criminal in nature, the Group has been seeking the PRC lawyers' advice on feasible legal means, including but not limited to the commencement of civil proceedings against Luo Lu and the enforcement of the Security, in order to recover the Compensation Amount. The Company will keep the Shareholders and potential investors of the Company informed of any further material development in relation to the aforesaid disputes by way of announcement as and when appropriate.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

* *For identification purpose only*

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

Hong Kong, 5 January 2022

As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Ms. Chan Josephine Wai Sze and Ms. Zhu Xueqin; the non-executive Director is Mr. Chow Yiu Pong David; and the independent non-executive Directors are Mr. Lee Cheung Yuet Horace, Mr. Yuen Ching Bor Stephen and Mr. Kan Sze King Kenneth.