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)

ANNOUNCEMENT OF UNAUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED FINANCIAL RESULTS

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 preliminary unaudited consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the previous financial year ended 31 December 2018 as set out below. Unless otherwise specified, terms used herein shall have the same meanings as those defined in the Company's announcement dated 27 August 2018 regarding the transfer of listing from GEM to main board.

Shareholders and potential investors should be aware that the preliminary unaudited consolidated results of the Group for the year ended 31 December 2019 (the "Year") has not been agreed with the auditors of the Company because the auditors' works are disrupted by the travel restriction between Hong Kong and Mainland China in relation to the recent outbreak of the coronavirus disease 2019 (COVID-19) pandemic (the "Pandemic") and is subject to possible deviation from the audited results which will be included in the Company's annual report for the Year to be published in due course after the travel restriction is lift. Areas of possible material or substantial difference between the information contained in this preliminary announcement of results and that to be contained in the audited results are detailed in the relevant notes to the financial information of this announcement. Shareholders and potential investors are advised to exercise caution when dealing in the shares and other securities of the Company.

FINANCIAL HIGHLIGHTS

- The revenue of the Group amounted to approximately HK$352.9 million for the year ended 31 December 2019, representing a slight decrease of approximately 2.1% as compared with the year ended 31 December 2018.

- The loss attributable to owners of the Company amounted to approximately HK$59.3 million for the year ended 31 December 2019, representing a substantial turnaround into loss as compared with a profit attributable to owners of the Company of approximately HK$2.3 million for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December **2019** *HK$'000*	2018 *HK$'000*
Revenue	*6*	**352,861**	360,509
Other income		**1,813**	2,041
Other losses		**–**	(97)
Cost of materials consumed		**(126,648)**	(119,946)
Employee benefits expense		**(94,956)**	(86,196)
Depreciation	*7*	**(60,655)**	(16,507)
Other expenses	*7*	**(89,373)**	(132,068)
Operating (loss)/profit		**(16,958)**	7,736
Listing expenses		**–**	(2,235)
Impairment loss on property, plant and equipment		**(3,579)**	–
Impairment loss on right-of-use assets		**(18,155)**	–
Finance costs		**(11,393)**	(494)
(Loss)/profit before income tax		**(50,085)**	5,007
Income tax expense	*8*	**(9,248)**	(2,745)
(Loss)/profit for the year attributable to owners of the Company		**(59,333)**	2,262
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		**(300)**	(3,264)
Total comprehensive loss for the year attributable to owners of the Company		**(59,633)**	(1,002)
			(Restated)
Basic (loss)/earnings per share	*10*	**HK cent (7.03)**	HK cent 0.27

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December 2019** **HK$'000**	2018 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**70,282**	49,842
Right-of-use assets	*11*	**167,961**	–
Rental deposits		**21,749**	19,284
Deposits placed for life insurance policies		**2,115**	2,048
Deferred tax assets		**1,144**	8,380
		263,251	79,554
Current assets			
Inventories		**13,968**	15,722
Trade receivables	*12*	**5,666**	4,014
Deposits, prepayments and other receivables		**10,142**	9,284
Current tax recoverable		**1,287**	1,238
Pledged bank deposits		**11,029**	11,002
Cash and cash equivalents		**71,151**	60,447
		113,243	101,707
Total assets		**376,494**	181,261
EQUITY			
Equity attributable to owners of the Company			
Share capital	*13*	**10,000**	8,000
Reserves		**82,807**	115,283
Total equity		**92,807**	123,283

		As at 31 December	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities	*16*	**141,598**	–
Contract liabilities		**–**	25
Obligations under finance leases		**–**	67
Provision for reinstatement costs		**6,055**	4,823
		147,653	4,915
Current liabilities			
Trade payables	*14*	**16,350**	7,365
Accruals, provisions and deposits received		**27,840**	18,386
Contract liabilities		**16,590**	15,860
Bank borrowings	*15*	**7,444**	10,567
Lease liabilities	*16*	**67,267**	–
Obligations under finance leases		**–**	195
Current tax payable		**543**	690
		136,034	53,063
Total liabilities		**283,687**	57,978
Total equity and liabilities		**376,494**	181,261
Net current (liabilities)/assets		**(22,791)**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

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 STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). A summary of significant accounting policies adopted by the Group is set out in note 3 in the Notes to the Consolidated Financial Statements (the "**Notes**") section of the annual report to be sent to the Shareholders.

The HKICPA has issued certain new, revised HKFRSs and interpretation that are first effective or available for early adoption for the current accounting period of the Group. Note 4 of the Notes provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

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

3 PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the accountants' report included in the Prospectus, except for the new standards, amendments and interpretations ("**the New HKFRSs**") issued by the HKICPA that are adopted for the first time for the current year's 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. The Group had not early adopted any new or revised standards or interpretations that have been issued but are not yet effective.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

5 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the CEO 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. 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 years ended 31 December 2018 and 2019, there are no single external customers contributed more than 10% revenue of the Group.

Geographical information

The following table presents revenue from external customers for the years ended 31 December 2018 and 2019 by geographic area.

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Revenue from external customers		
Hong Kong	**187,227**	183,426
Mainland China	**165,634**	177,083
	352,861	360,509

The revenue information above is based on the locations of the customers.

6 REVENUE

An analysis of revenue during the years ended 31 December 2018 and 2019 are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Revenue from customers and recognised at point in time		
Revenue from Chinese restaurant operations	**344,967**	353,040
Revenue from Thai Cuisine restaurant operations	**7,823**	5,841
Revenue from sale of food ingredients	**71**	1,628
	352,861	360,509

7 DEPRECIATION AND OTHER EXPENSES

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Depreciation		
– property, plant and equipment	**13,628**	16,507
– right-of-use assets	**47,027**	–
	60,655	16,507

Other expenses include the following items:

	2019	2018
Auditor's remuneration		
– audit services	**815**	690
– non audit services	**206**	158
Operating lease expenses		
– Normal rent for premises under HKAS 17	**–**	51,868
– Contingent rent for premises*	**3,879**	6,180
– Short term operating leases	**5,502**	–
Impairment loss on trade receivables	**253**	–

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

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Current tax		
Current tax on profits for the year		
– Hong Kong	**31**	818
– The PRC	**1,718**	4,491
Underprovided/(overprovided) in prior year	**256**	(114)
	2,005	5,195
Deferred tax		
Origination and reversal of temporary differences	**1,645**	(2,450)
Underprovided in prior year	**5,598**	–
	7,243	(2,450)
Income tax expense	**9,248**	2,745

For the years ended 31 December 2018 and 2019, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying subsidiary will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of subsidiaries not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

According to the PRC Enterprise Corporate Tax Law promulgated by the PRC government, the PRC's statutory income tax rate is 25%. Except for certain preferential tax treatment available to one of its subsidiaries of the Group, the other PRC subsidiaries are subject to income tax at the rate of 25% for the years ended 31 December 2018 and 2019.

9 DIVIDEND

Pursuant to the board of Directors' meeting on 30 March 2020, the Directors resolved not to recommend the payment of a final dividend for the year ended 31 December 2019.

Final dividend of HK$4,000,000 for the year ended 31 December 2018 was declared on 25 March 2019, and was paid in full in June 2019.

10 (LOSS)/EARNINGS PER SHARE

The basic and diluted earnings per share and weighted average number of ordinary shares for the year ended 31 December 2018 have been adjusted to reflect the impact of the rights issue which was effective on 17 December 2019.

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

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
(Loss)/Earnings		
(Loss)/profit for the year attributable to the owners of the Company	**(59,333)**	2,262

	2019	2018
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of shares for the purpose of calculating basic earnings per share	**844,468**	834,492

Diluted (loss)/earnings per share was the same as basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2018 and 2019.

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	108,002
Exchange realignment	(780)
Additions	124,720
Adjustments upon modification of the leases	1,136
As at 31 December 2019	233,078
Accumulated depreciation and impairment	
Charge for the period	47,027
Impairment provided for the period	18,155
Exchange realignment	(65)
As at 31 December 2019	65,117
Carrying amount	
As at 31 December 2019	167,961

12 TRADE RECEIVABLES

	31 December 2019	31 December 2018
	HK$'000	*HK$'000*
Trade receivables	**6,016**	4,113
Less: Allowance for impairment losses	**(350)**	(99)
	5,666	4,014

The Group's sales from its 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:

	31 December 2019	31 December 2018
	HK$'000	*HK$'000*
0 to 30 days	**5,208**	3,298
31 to 60 days	**196**	515
61 to 90 days	**143**	181
Over 90 days	**119**	20
	5,666	4,014

13 SHARE CAPITAL

	Number of Ordinary shares	Nominal value of Ordinary shares *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each as at 1 January 2018, 31 December 2018 and 2019	2,000,000,000	20,000
Issued and fully paid:		
As at 1 January 2018 and 31 December 2018	800,000,000	8,000
Issue of new shares from rights issue	200,000,000	2,000
As at 31 December 2019	1,000,000,000	10,000

14 TRADE PAYABLES

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

	31 December 2019 ***HK$'000***	31 December 2018 *HK$'000*
0 to 30 days	**10,996**	6,795
31 to 60 days	**3,427**	225
61 to 90 days	**1,747**	171
Over 90 days	**180**	174
	16,350	7,365

15 BANK BORROWINGS

	31 December 2019 ***HK$'000***	31 December 2018 *HK$'000*
Bank borrowings due for repayment within one year – secured	**7,444**	8,118
Bank borrowings due for repayment after one year which contain a repayment on demand clause – secured	**–**	2,449
	7,444	10,567

As at 31 December 2018 and 2019, the banking facilities of the Group were secured by bank deposits of approximately HK$11,002,000 and HK$11,029,000 respectively of the Group and corporate guarantee of the Company.

16 LEASE LIABILITIES

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

	At 31 December 2019	
	Present value of the minimum lease payments *HK$' 000*	**Total minimum lease payments** *HK$' 000*
Within one year	67,267	69,209
After one year but within two years	48,994	53,664
After two years but within five years	68,469	88,909
After five years	24,135	43,853
	141,598	186,426
	208,865	255,635
Less: total future interest expenses		(46,770)
Present value of lease liabilities		208,865

17 MAJOR NON CASH TRANSACTIONS

For the year ended 31 December 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$125,856,000.

For the year ended 31 December 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.

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 year ended 31 December 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 in Shenzhen (the "**Thai (Shenzhen) Restaurant**"). 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 year, the Group also opened (i) 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; (ii) another Tea House, namely "Star of Canton Tea House (利寶閣茶居)" in a shopping mall in Luohu, Shenzhen in December 2019, which is youth-style and mass-oriented, to provide specialty Cantonese food such as dim sum, Hong Kong style roasted meats and stew soup; and (iii) a new full-service Cantonese restaurant, namely "Shenzhen One Avenue Restaurant (深圳卓越中心酒樓)" in a new shopping mall in Futian, Shenzhen in December 2019. 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 in an elegant and comfortable dining setting. All of the Group's restaurants target at mid-to-high end spending customers.

As at 31 December 2019, the Group had:

In Hong Kong:

(i) six Chinese restaurants, which 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), Kwun Tong (i.e. the Kwun Tong Restaurant) and Sheung Wan (i.e. the Sheung Wan Restaurant and the Beijing House Restaurant, which ceased operation in February 2020), respectively;

(ii) one Thai cuisine restaurant (i.e. the Thai (Mongkok) Restaurant) located in Mongkok;

In Shenzhen, the PRC:

(iii) three Chinese restaurants, which were located in Futian District (i.e. the Shenzhen Restaurant and the Shenzhen One Avenue Restaurant) and Baoan District (i.e. the Shenzhen Uniwalk Restaurant), respectively; and

(iv) two small-scale Cantonese dim sum tea houses, which were located in Futian District (i.e. the Star of Canton Dim Sum Tea House) and Luohu District (i.e. the Star of Canton Tea House), respectively.

In December 2019, the Group entered into a cooperation agreement with Shenzhen Freshippo Network Technology Co., Ltd. ("**Shenzhen Freshippo**"), a member of Alibaba Group, which provides the Group to have access to the PRC's growing food delivery and takeaway market through the implementation of the online and offline innovative retail model that integrates physical stores and e-commerce platforms. Under the cooperation agreement with Shenzhen Freshippo, the Company undertook to set up not less than 10 counters at Shenzhen Freshippo* (盒馬鮮生) stores on or before 15 December 2020. In January 2020, the Group extended its cooperation with Alibaba Group by entering into a cooperation agreement with Shanghai Freshippo Network Technology Co., Ltd. ("**Shanghai Freshippo**"), pursuant to which the Group undertook to set up not less than 10 counters at Shanghai Freshippo stores on or before 31 December 2020.

The Company will leverage Freshippo brand awareness and high traffic to attract more young people, develop multi-channel sales and penetrate the Chinese takeaway and food delivery market efficiently. The cooperation enables the Company to capture the huge opportunity in China's next generation online and offline retail catering market through commodifying its highly regarded Cantonese dim sum dishes and delicacies under the brand of "Star of Canton". For details, please refer to the Company's announcements dated 16 December 2019 and 9 January 2020.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded a total revenue of approximately HK$352.9 million, representing a slight decrease of approximately 2.1% as compared to approximately HK$360.5 million for the year ended 31 December 2018.

The Group's total revenue for the year ended 31 December 2019 comprised:

For Hong Kong market:

(i) the aggregate revenue of the six full-service Chinese restaurants of approximately HK$180.9 million (2018: HK$181.8 million), of which the revenue from the Kwun Tong Restaurant (opened in December 2018 and operated for the full year in 2019) was approximately HK$32.3 million (2018: HK$3.5 million);

(ii) revenue of approximately HK$6.3 million from the Thai (Mongkok) Restaurant which was opened in June 2019; and

(iii) revenue from the sales of food ingredients of approximately HK$0.1 million (2018: HK$1.6 million);

For Shenzhen market:

(iv) the aggregate revenue of the three full-service Chinese restaurants of approximately HK$159.2 million, including revenue of approximately HK$1.6 million from the Shenzhen One Avenue Restaurant which was opened in December 2019 (2018: two restaurants of approximately HK$171.3 million);

(v) revenue of the Thai (Shenzhen) Restaurant (closed in May 2019) of approximately HK$1.6 million (2018: HK$5.8 million); and

(vi) the aggregate revenue of approximately HK$4.8 million from the two tea houses which were opened in August and December 2019 respectively.

Excluding the revenue contributed by the Kwun Tong Restaurant which was opened in December 2018, the aggregate revenue of the Group's five Chinese restaurants in Hong Kong for the year ended 31 December 2019 decreased by approximately 16.7% as compared to the year ended 31 December 2018. On the other hand, the aggregate revenue of the Group's two Chinese restaurants in Shenzhen (excluding the Shenzhen One Avenue Restaurant which was newly opened in December 2019) decreased by approximately 7.9% over the same period. The Directors consider such decrease in revenue for both Hong Kong and Shenzhen regions was mainly due to 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 development of the China-US trade war which negatively affected the consumption sentiments of the general public. Furthermore, the social unrest in Hong Kong which occurred in June 2019 and lasted over the second half of 2019 seriously affected the retail and catering sectors in Hong Kong.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$226.2 million for the year ended 31 December 2019, representing a decrease of approximately 6.0% from approximately HK$240.6 million for the year ended 31 December 2018, which was in line with the decrease in revenue during the year. Nevertheless, the Group's overall gross profit margin decreased from approximately 66.7% for the year ended 31 December 2018 to approximately 64.1% for the year ended 31 December 2019. Such decrease was mainly due to (i) the Group offered more concessions to attract customers in view of the sluggish economy and the negatively affected catering sector as described above, 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 year ended 31 December 2019.

Employee benefits expense

Employee benefits expense was approximately HK$95.0 million for the year ended 31 December 2019 (2018: approximately HK$86.2 million), representing an increase of approximately 10.2% as compared to 2018 which was mainly due to the addition of workforce for the Kwun Tong Restaurant, which was opened in December 2018 and operated for the full year in 2019, and other new restaurants and tea houses opened during the year ended 31 December 2019.

Depreciation

Depreciation for the year ended 31 December 2019 included approximately HK$47.0 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 to temporary workers, advertising and promotion. For the year ended 31 December 2019, other expenses amounted to approximately HK$89.4 million (2018: HK$132.1 million), representing a decrease of approximately HK$42.7 million or 32.3% which was mainly due to the combined effects of (i) the decrease in operating lease expenses by approximately HK$48.7 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 full-year incurring of other operating expenses of approximately HK$8.6 million for the Kwun Tong Restaurant which was opened in December 2018 (2018: HK$1.8 million).

Impairment losses on property, plant and equipment and right-of-use assets

The Sheung Wan Restaurant and the Beijing House Restaurant, which were managed by the same operating subsidiary of the Group, continued to record unsatisfactory financial performance since their commencement of operation in 2015. In particular, the two restaurants recorded aggregate operating losses for each of the years ended 31 December 2015 to 2019. As such, impairment losses on equipment and right-of-use assets of the two restaurants amounting to approximately HK$3.6 million and HK$18.2 million respectively were provided for the year ended 31 December 2019.

Finance costs

Finance costs for the year ended 31 December 2019 included approximately HK$10.9 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 year ended 31 December 2019, the Group recorded a loss attributable to owners of the Company of approximately HK$59.3 million, 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. Such loss-making position for the year ended 31 December 2019, representing a deterioration of financial performance by approximately HK$61.6 million as compared to the last year, 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 increase in aggregate operating losses of the Group's restaurant operations in Hong Kong (which existed throughout both years) by approximately HK$23.9 million; (ii) the decrease in aggregate operating profit of the Group's restaurant operations in Shenzhen, the PRC (which existed throughout both years) by appropriately HK$5.3 million; (iii) the incurring of aggregate operating losses of approximately HK$7.9 million in respect of the Group's restaurants and tea houses newly opened in 2019 during their initial stages of operations; and (iv) the record of impairment losses on equipment and right-of-use assets of approximately HK$3.6 million and HK$18.2 million respectively in respect of the Sheung Wan Restaurant and the Beijing House Restaurant.

Liquidity, financial resources and capital structure

Capital Structure

The Group's objectives in 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 year ended 31 December 2019, was to maintain the gearing ratio at an acceptable level.

As at 31 December 2019, the Group's cash and cash equivalents were approximately HK$70.8 million, representing an increase of approximately HK$10.4 million as compared with approximately HK$60.4 million as at 31 December 2018. The increase was mainly due to the net proceeds of approximately HK$45.7 million raised from the Company's rights issue completed in December 2019, which was partially offset by the decrease in cash as a result of operating loss for the year.

As at 31 December 2019, cash and cash equivalents and restricted bank deposits amounted to approximately HK$82.2 million, of which approximately HK$50.6 million and HK$31.6 million were denominated in Hong Kong dollars ("**HK$**") and Renminbi ("**RMB**"), respectively.

Indebtedness and Banking Facilities

As at 31 December 2019, the Group had bank borrowings of approximately HK$7.4 million, which were all denominated in HK$, bearing interest rates 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 31 December 2019, the Group's gearing ratio was approximately 8.1%, which is calculated based on the interest-bearing debts divided by total equity attributable to owners of the Company as at 31 December 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 31 December 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. Although HK$ is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the year under review. Thus no significant exposure is expected on RMB transactions and balances. Accordingly, the Group does not have any material foreign exchange exposure. During the year ended 31 December 2019, the Group had not used any financial instruments for hedging purposes.

Securities in Issue

On 29 October 2019, the Company entered into an underwriting agreement with the underwriter in relation to the underwriting and respective arrangements in respect of the rights issue (the "**Rights Issue**") of 200,000,000 rights shares (the "**Rights Shares**"), on the basis of one Rights Share for every four existing shares, at the subscription price of HK$0.238 per Rights Share. The Rights Issue was completed on 17 December 2019. The gross proceeds and net proceeds raised were approximately HK$47.6 million and HK$45.7 million respectively. Please refer to the Company's announcements dated 29 October 2019, 19 November 2019 and 16 December 2019, and circular dated 25 November 2019 (the "**Circular**") for details.

As at 31 December 2019, there were 1,000,000,000 ordinary shares in issue. Save for the issue of 200,000,000 Rights Shares pursuant to the Rights Issue, there was no movement in the issued share capital of the Company during the year ended 31 December 2019.

Significant Investment Held, Material Acquisition or Disposal of Subsidiaries and Affiliated Companies and Plans for Material Investment or Capital Assets

There was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2019. Save as disclosed in this announcement, there was no plan for material investment or capital assets as at 31 December 2019.

Charge on Assets

As at 31 December 2019, the Group pledged its bank deposits of approximately HK$11.0 million as securities for the Group's bank borrowings of approximately HK$7.4 million. Save as disclosed above, the Group did not have any charge over its assets.

Contingent Liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 770 employees as at 31 December 2019. The employee benefits expense, including Directors' emoluments, of the Group were approximately HK$95.0 million for the year ended 31 December 2019 (2018: HK$86.2 million).

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 with 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 (the "**Remuneration Committee**") 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 year ended 31 December 2019, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Directors resolved not to recommend the payment of a final dividend for the year ended 31 December 2019 (2018: HK0.50 cents per Share).

Prospects

The successful Listing and the Transfer of Listing marked major milestones as well as new chapters of the Company. Nevertheless, due to the uncertainties of the Hong Kong and China economies and the outbreak of the Pandemic in Hong Kong and China since January 2020 which seriously affected the catering industry, 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 to survey and research customer trends and preferences and to develop and market new menu items, banquet and dining services may be required, this may place substantial burden on the Group's managerial and financial resources;

(ii) the Group may fail to obtain leases of desirable locations for new restaurants or renew existing leases on commercially acceptable terms, and the aforesaid potential failure 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 fluctuating exchange rate;

(iv) there may be labour shortage in the future and competition for qualified individuals in the food and beverage industry may be intense;

(v) the Hong Kong and China economies may be further worsened as a result of the unfavourable development of the China-US trade war which would negatively affect the consumption sentiments of the general public and consequently the retail and catering sectors;

(vi) the continuous social unrest in Hong Kong would seriously affect the retail and catering sectors, including certain regions where the Group operates; and

(vii) the outbreak of the Pandemic in Hong Kong and China since January 2020, which may become serious and adversely affect the Group's restaurant operations in the year to come.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Company's Prospectus dated 24 June 2016 (the "Prospectus").

Nonetheless, the management 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 in managing Chinese restaurant business in Hong Kong and China and its business strategies as detailed below.

The operations of the Group's restaurants and tea houses which were newly opened in 2019, are expected to be gradually put on track. Although these new restaurants incurred operating losses during the year ended 31 December 2019, the Directors expect their financial performance would be improved in the near future.

Although the opening of the Shenzhen One Avenue Restaurant was substantially delayed from the original plan, it was finally opened in December 2019. The Directors expect that the opening of the Shenzhen One Avenue Restaurant could strengthen the Group's brand awareness among existing and potential customers and create synergy effect with other Chinese restaurants of the Group in Shenzhen, the PRC.

Besides, in order to capture customers of the young generation, the Group opened two small-scale dim sum tea houses in Futian District and Luohu District, respectively, in Shenzhen, the PRC in 2019. The tea houses are young-style and mass-oriented, and provide specialty Cantonese food such as dim sum, Hong Kong style roasted meats and stew soup.

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 Chinese cuisines, Chinese banquet and dining services for large-scale events, as well as other non-Chinese cuisines. Although 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 its 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.

Apart from traditional restaurant operations, the Group entered into cooperation agreements with Shenzhen Freshippo and Shanghai Freshippo of Alibaba Group in December 2019 and January 2020 respectively, to set up not less than 10 counters at Freshippo stores in the respective regions, which provide the Group to access the PRC's growing food delivery and takeaway market through the implementation of the online and offline innovative retail model that integrates physical stores and e-commerce platforms. Please refer to the subsection headed "Business and operational review" above for further details.

Furthermore, on 9 January 2020, the Group entered into an equity transfer agreement to acquire 70% equity interest in a target company which operates more than 30 food counters selling roasted meat and delicatessen under the brand names of "Sun Kau Kee* (新玖記)" and "Chaojiangjun* (潮將軍)" through online and offline stores at Freshippo in Shanghai, the PRC. The acquisition is expected to be completed in the second quarter of 2020. Please refer to the Company's announcement dated 9 January 2020 for further details.

The acquisition and cooperation with Freshippo together further expand the Group's presence in China. The Group targets to evolve as one of the leading players in offering quality roast meat and Cantonese delicacies in China online and offine food catering market.

The Group will also consider the expansion of its catering business into other types of cuisines and operation modes when opportunities arise, taking into account the Group's available resources, with the aim to maximize the return to its Shareholders.

Effect of the Pandemic

In view of the outbreak of the Pandemic in China and Hong Kong since January 2020, the Group has been paying close attention to the development of the Pandemic 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 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 have resumed operation in late March 2020.

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 Pandemic 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 Pandemic, and will adjust its business strategies to cater for the market trend and customer demand in order to improve its financial performance going forward.

Use of proceeds from the Listing

The shares of the Company (the "**Shares**") 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 31 December 2019, the net proceeds from the placing were applied as follows:

	Planned use of proceeds as stated in the Prospectus up to 31 December 2018 *HK$'000*	**Actual use of proceeds up to 31 December 2019** *HK$'000*
Progressive expansion in the PRC market	48,000	43,500
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 31 December 2019, approximately HK$48.0 million out of the net proceeds from the Listing had been used in accordance with the planned usage as detailed above, while approximately HK$5.8 million is used for Group's working capital and general corporate purposes. The unused net proceeds as at 31 December 2019 were related to the fund set aside for the settlement of renovation costs incurred and payable for the Shenzhen One Avenue Restaurant which was opened in December 2019. The portion of net proceeds yet to be used was deposited in licensed banks in Hong Kong and the PRC, and is expected to be progressively utilised in the first half of 2020.

The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly review 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.

Use of proceeds from the Rights Issue

The Company's Rights Issue was completed on 17 December 2019 with net proceeds received by the Company in the amount of approximately HK$45.7 million after deducting underwriting commissions and related expenses.

As at 31 December 2019, the net proceeds from the Rights Issue were applied as follows:

	Planned use of net proceeds as stated in the Circular *HK$'000*	**Actual use of net proceeds up to 31 December 2019** *HK$'000*
Repayment of the Group's indebtedness and interest expenses	7,500	5,000
Payment of renovation and refurbishment costs of the Group's restaurants	20,500	6,850
General working capital	17,700	17,700

As at 31 December 2019, approximately HK$29.6 million out of the net proceeds from the Rights Issue had been used in accordance with the planned usage as detailed above. The portion of net proceeds yet to be used was deposited in licensed banks in Hong Kong, and is expected to be progressively utilised in the first half of 2020.

EVENTS AFTER THE REPORTING DATE OF 31 DECEMBER 2019

(i) On 9 January 2020, the Group entered into an equity transfer agreement to acquire 70% equity interest in a target company which operates more than 30 food counters selling roasted meat and delicatessen under the brand names of "Sun Kau Kee* (新玖記)" and "Chaojiangjun* (潮將軍)" through online and offline stores at Freshippo in Shanghai, the PRC. The acquisition is expected to be completed in the second quarter of 2020. Please refer to the Company's announcement dated 9 January 2020 for further details.

(ii) In February 2020, the Group ceased the operation of the Sheung Wan Restaurant and the Beijing House Restaurant.

Save as disclosed above and elsewhere in this announcement, the Board is not aware of any important event requiring disclosure that has been taken place subsequent to 31 December 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. 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 "**CG Code**") in Appendix 14 to the Listing Rules. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code for the year ended 31 December 2019, except for certain deviations as specified with considered reasons for such deviations which are explained below.

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

From the Listing Date to 31 December 2019, the Company has not separated the roles of chairman and chief executive officer of the Company. Mr. Chan Chun Kit was the chairman and also the chief executive officer of the Company and is responsible for overseeing the operations of the Group during such period. In view of the fact that Mr. Chan has been operating and managing the Group since 1998, the Board believes that it is in the best interests of the Group to have Mr. Chan taking up both roles for effective management and business development. The Board also believes that vesting the roles of both chairman and chief executive officer in the same person has 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 performs both roles of chairman and chief executive officer, the division of responsibilities between the two roles is clearly established. While the chairman is responsible for supervising the functions and performance of the Board, the chief executive officer is responsible for the management of the Group's business. The Board considers that the balance of power and authority for the present arrangement will not be impaired given the appropriate delegation of the power of the Board to the senior management of the Company 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 one individual has unfettered power of decisions. This structure will 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 year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased or sold any of the listed securities of the Company during the year ended 31 December 2019. The Company did not redeem any of its listed securities during the year ended 31 December 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 year ended 31 December 2019 and there were no outstanding share options under the Share Option Scheme as at 31 December 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. Liu Chi Keung and Mr. Yuen Ching Bor Stephen.

The unaudited consolidated financial statements of the Group for the year ended 31 December 2019 have not been reviewed by the Audit Committee in accordance with Listing Rule 13.49(3)(c).

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.starofcanton.com.hk). The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and posted on the above websites in due course.

By Order of the Board
Li Bao Ge Group Limited
Chan Chun Kit
Chairman and Executive Director

Hong Kong, 30 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.

* *For identification purposes only*