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: 8102)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

*This announcement, for which the directors (the "**Directors**") of LI BAO GE GROUP LIMITED (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

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 2017 (the "**Period**") together with the comparative figures for the corresponding period in 2016 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 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$139.1 million, representing an increase of approximately 5.2% as compared with the corresponding period in 2016.

– profit attributable to owners of the Company amounted to approximately HK$7.8 million, representing an increase in profit by approximately HK$14.0 million as compared with the loss of approximately HK$6.1 million of the corresponding period in 2016.

– earnings per share was approximately HK0.98 cents.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**139,081**	132,229
Other income	*4*	**908**	303
Other gains and losses		**(56)**	(289)
Cost of materials consumed		**(40,517)**	(39,814)
Employee benefits expense		**(31,575)**	(32,340)
Depreciation		**5,783**	(6,675)
Other expenses	*5*	**(51,308)**	(50,976)
Operating profit		**10,750**	2,438
Listing expenses		**–**	(7,551)
Finance costs	*6*	**(313)**	(436)
Profit/(Loss) before income tax		**10,437**	(5,549)
Income tax expense	*7*	**(2,610)**	(580)
Profit/(Loss) attributable to owners of the Company		**7,827**	(6,129)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		**(281)**	(125)
Total comprehensive income/(expense) attributable to owners of the Company		**7,546**	(6,254)
		HK cent	HK cent
Basis earnings/(loss) per share	*9*	**0.98**	(1.02)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	**30 June 2017 HK$'000 (Unaudited)**	31 December 2016 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**25,019**	30,536
Rental deposits	*11*	**15,673**	15,420
Deposits placed for life insurance policies		**5,714**	5,457
Deferred income tax assets		**5,478**	5,179
		51,884	56,592
Current assets			
Inventories		**8,169**	9,494
Trade receivables	*12*	**3,384**	3,797
Deposits, prepayments and other receivables	*11*	**20,823**	5,373
Current tax recoverable		**662**	1,518
Pledged bank deposits	*13*	**14,001**	14,000
Cash and cash equivalents		**68,598**	83,587
		115,637	117,769
Total assets		**167,521**	174,361
EQUITY			
Equity attributable to owners of the Company			
Share capital	*14*	**8,000**	8,000
Reserves		**111,537**	110,791
Total equity		**119,537**	118,791

	Notes	**30 June 2017** ***HK$'000*** **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
LIABILITIES			
Non-current liabilities			
Deposits received		**293**	180
Obligations under finance leases	*16*	**357**	454
Provision for reinstatement cost	*17*	**3,020**	3,011
		3,670	3,645
Current liabilities			
Trade payables	*19*	**6,557**	8,648
Accruals, provisions and deposits received		**18,303**	21,285
Bank borrowings	*15*	**16,514**	19,230
Obligations under finance leases	*16*	**216**	235
Current tax payable		**2,724**	2,527
		44,314	51,925
Total liabilities		**47,984**	55,570
Total equity and liabilities		**167,521**	174,361
Net current assets		**71,323**	65,844
Total assets less current liabilities		**123,207**	122,436

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company						
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Other reserves** *HK$'000*	**Exchange translation reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
Balance as at 1 January 2016 (audited)	–	–	78	34,618	(281)	4,059	38,474
Comprehensive income							
Profit for the year	–	–	–	–	–	(6,129)	(6,129)
Currency translation differences	–	–	–	–	(125)	–	(125)
Total comprehensive expense for the year	–	–	–	–	(125)	(6,129)	(6,254)
Arising from reorganisation	–	–	(78)	78	–	–	–
Issue of new shares by placing	2,000	69,000	–	–	–	–	71,000
Capitalisation issue of shares	6,000	(6,000)	–	–	–	–	–
Expenses incurred in connection with issue of new shares	–	(7,880)	–	–	–	–	(7,880)
Waiver of amounts due to ultimate controlling shareholders	–	–	–	7,699	–	–	7,699
Balance as at 30 June 2016 (unaudited)	8,000	55,120	–	42,395	(406)	(2,070)	103,039
Balance as at 1 January 2017 (audited)	8,000	55,134	–	42,396	(2,146)	15,407	118,791
Comprehensive income							
Profit for the year	–	–	–	–	–	7,827	7,827
Currency translation differences	–	–	–	–	(281)	–	(281)
Total comprehensive income for the year	–	–	–	–	(281)	7,827	7,546
Dividend paid *(Note 8)*	–	–	–	–	–	(6,800)	(6,800)
Balance as at 30 June 2017 (unaudited)	8,000	55,134	–	42,396	(2,427)	16,434	119,537

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Cash flows from operating activities			
Profit/(Loss) before income tax		**10,437**	(5,549)
Adjustments for:			
Depreciation of property, plant and equipment		**5,783**	6,675
Finance costs	*6*	**313**	436
Interest income	*4*	**(271)**	(133)
Unrealised exchange (loss)/gain		**(861)**	320
Premium charged on a life insurance policies		**82**	45
Underprovision for reinstatement cost		**–**	129
Loss on disposal of property, plant and equipment		**–**	19
Operating cash flows before changes in working capital		**15,483**	1,942
Changes in working capital:			
Inventories		**1,387**	(9)
Trade receivables		**450**	549
Deposits, prepayments and other receivables		**(15,603)**	5,145
Trade payables		**(2,144)**	(1,441)
Pledged bank deposits		**(1)**	(10,543)
Accruals, provisions and deposits received		**(3,000)**	(1,272)
Cash used in operations		**(3,428)**	(5,629)
Profits tax paid, net		**(1,841)**	(1,970)
Net cash used in operating activities		**(5,269)**	(7,599)
Investing activities			
Interest received		**135**	27
Purchases of property, plant and equipment		**(130)**	(367)
Proceeds from disposal of property, plant and equipment		**–**	21
Deposits paid for life insurance policies		**(203)**	(203)
Repayments from related companies		**–**	310
Reinstatement costs paid for premises		**–**	(222)
Net cash used in investing activities		**(198)**	(434)

	Notes	Six months ended 30 June 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Financing activities			
Interest paid		**(313)**	(436)
Dividends paid		**(6,800)**	–
Net proceeds from bank borrowings		**–**	5,000
Repayments of bank borrowings		**(2,716)**	(2,603)
Repayments of finance lease obligations		**(116)**	(111)
Advances from directors		**–**	3,179
Repayments to related companies		**–**	(3,539)
Net cash (used in)/generated from financing activities		**(9,945)**	1,490
Net decrease in cash and cash equivalents		**(15,412)**	(6,543)
Cash and cash equivalents at beginning of the period		**83,587**	28,060
Effect of foreign exchange rate changes		**423**	(216)
Cash and cash equivalents at end of the period		**68,598**	21,301

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 are listed on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**Listing**") since 30 June 2016 (the "**Listing Date**").

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 2016 ("**2016 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 2016 Annual Report and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2017.

The unaudited condensed consolidated financial statement is 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.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

The HKICPA has issued certain amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 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 Chinese restaurants and no operating segment information is presented.

For the period ended 30 June 2017 and 2016, 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 period ended 30 June 2017 and 2016 and certain non-current assets information as at 30 June 2017 and 31 December 2016 by geographic area.

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from external customers		
Hong Kong	**90,191**	90,900
Mainland China	**48,890**	41,329
	139,081	132,229

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

	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	**17,013**	20,491
Mainland China	**8,006**	10,045
	25,019	30,536

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 Chinese restaurants and other income during the periods ended 30 June 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue		
Revenue from Chinese restaurant operations	**139,081**	132,229
Other income		
Interest income on short-term bank deposits	**135**	27
Interest income from deposits placed for life insurance policies	**136**	106
Forfeiture of deposits received	**50**	33
Miscellaneous income	**587**	137
	908	303
Total revenue and other income	**139,989**	132,532
Total interest income on financial assets not at fair value through profit or loss	**271**	133

5 OTHER EXPENSES

Other expenses include the following items:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Auditors' remuneration		
– audit services	**289**	165
– non audit services	**80**	–
Operating lease expenses		
– Normal rent for premises	**21,007**	20,098
– Contingent rent for premises*	**2,639**	2,019

* 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	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest expense on bank borrowings	**299**	416
Interest expense on finance lease obligations	**14**	20
Total interest expenses on financial liabilities not at fair value through profit or loss	**313**	436

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current income tax		
Current income tax on profits for the year		
– Hong Kong	**1,018**	922
– The PRC	**1,804**	708
Overprovided in prior year	**54**	–
	2,876	1,630
Deferred income tax		
Origination and reversal of temporary differences	**(266)**	(1,050)
Income tax expense	**2,610**	580

Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profits for the subsidiaries of the Group incorporated in Hong Kong during the six months ended 30 June 2017 and 2016.

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 period ended 30 June 2017 and 2016.

8 DIVIDENDS

Final dividends of HK$6,800,000 for the year ended 31 December 2016 were declared on 27 March 2017, and approved by the Shareholders at the annual general meeting of the Company held on 24 May 2017. The Board of Directors of the Company does not recommend the payment of any dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

9 EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings/(loss)		
Profit/(loss) for the period attributable to the owners of the Company	**7,827**	(6,129)
Number of shares		
Weighted average number of shares for the purpose of calculating basis earnings/(loss) per share	**800,000,000**	602,198,000

The number of shares for the six months ended 30 June 2016 used for the purpose of calculating basis earnings/(loss) per share has been retrospectively adjusted for the issue of shares during the reorganisation and capitalisation issue as disclosed in note 14 as if the shares had been in issue throughout the entire reporting period.

The diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary shares outstanding during the six months ended 30 June 2017 and 2016.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired at cost, property, plant and equipment of approximately HK$130,000 (six months ended 30 June 2016: HK$367,000).

11 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Rental deposits	**15,673**	15,420
Utility deposits	**1,382**	1,313
Other deposits	**339**	734
Prepayments	**1,361**	1,111
Deposits paid for purchase of property plant and equipment	**17,340**	–
Other receivables	**401**	2,215
	36,496	20,793
Less: Non-current portion – rental deposits	**15,673**	15,420
Current portion	**20,823**	5,373

12 TRADE RECEIVABLES

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 is as follows:

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
0 to 30 days	**2,867**	3,005
31 to 60 days	**88**	470
61 to 90 days	**44**	105
Over 90 days	**385**	217
	3,384	3,797

13 PLEDGED BANK DEPOSITS

The balances, which were carried at the prevailing market rate as 0.025% to 0.15% per annum represent deposits pledged to banks to secure short-term bank borrowings (note 15) 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.

14 SHARE CAPITAL

	Note	**Number of Ordinary shares**	**Nominal value of Ordinary share** *HK$'000*
Authorised:			
On incorporation		38,000,000	380
Increased on 16 June 2016		1,962,000,000	19,620
Ordinary shares of HK$0.01 each as at 31 December 2016 (audited) and 30 June 2017 (unaudited)		2,000,000,000	20,000
Issued and fully paid:			
As at 1 September 2015 (date of incorporation)	*(a)*	1	*
Issue of shares during reorganisation	*(b)*	9,999	*
Issue of shares by capitalisation of share premium account	*(c)*	599,990,000	6,000
Issue of shares upon placing	*(d)*	200,000,000	2,000
As at 31 December 2016 (audited) and 30 June 2017 (unaudited)		800,000,000	8,000

* Represents amount less than HK$1,000

(a) The Company was incorporated on 1 September 2015 with an initial authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares with par value of HK$0.01 each. On the date of incorporation, 1 ordinary share was subscribed by a nominee company at nil consideration, which was then transferred to Zhao Tian Ventures Limited ("**Zhao Tian**") on the same date.

(b) On 16 June 2016, Zhao Tian, Sincere Expand Limited ("**Sincere**") and Universal Palm Trading Limited ("**Universal**") (as vendors) and the Company (as purchaser) entered into a sale and purchase agreement pursuant to which the Company acquired 10,000 shares in Zhen Tong, representing its entire issued share capital and in consideration thereof, (i) one nil-paid Share held by Zhao Tian was credited as fully-paid; and (ii) 8,486 Shares, 1,062 Shares and 451 Shares were allotted to Zhao Tian, Sincere and Universal respectively.

(c) On 16 June 2016, the Company capitalised HK$5,999,900 by crediting the share premium account of the Company and applied such sum to pay up in full at par a total of 599,990,000 shares for allotment and issue to the then shareholders in proportion to their respectively shareholdings.

(d) On 29 June 2016, the Company issued 200,000,000 new shares with nominal value of HK$0.01 each for the placing at the offer price of HK$0.355 each.

15 BANK BORROWINGS

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Bank borrowings due for repayment within one year – secured	**9,450**	10,671
Bank borrowings due for repayment after one year which contain a repayment on demand clause – secured	**7,064**	8,559
	16,514	19,230

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

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Within one year	**9,450**	10,671
Over one year but less than two years	**3,072**	3,020
Over two years but less than five years	**3,992**	5,539
	16,514	19,230

The bank loans were guaranteed by the Company together with an approximately of HK$14,001,000 (2016: HK$14,000,000) pledged bank deposits provided by the Group.

16 OBLIGATIONS UNDER FINANCE LEASES

The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group.

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Gross finance lease liabilities		
– minimum lease payments		
No later than 1 year	**237**	260
Later than 1 year and no later than 5 years	**371**	478
	608	738
Future finance charges on finance leases	**(35)**	(49)
Present value of finance lease liabilities	**573**	689
The present value of finance lease liabilities is as follows:		
No later than 1 year	**216**	235
Later than 1 year and no later than 5 years	**357**	454
	573	689

As at 31 December 2016 and 30 June 2017, finance lease liabilities are secured by motor vehicles.

17 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.

18 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2017 not provided for in the condensed consolidated financial statements are as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted for:		
– purchase of property, plant and equipment	**11,336**	–

19 TRADE PAYABLES

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

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
0 to 30 days	**6,477**	7,669
31 to 60 days	**–**	880
61 to 90 days	**30**	21
Over 90 days	**50**	78
	6,557	8,648

20 OPERATING LEASE COMMITMENTS

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

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.

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

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
No later than 1 year	**51,859**	52,093
Later than 1 year and no later than 5 years	**132,978**	80,952
Later than 5 years	**41,015**	60,928
	225,852	193,973

21 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	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Rental expenses paid to Richfield Develop Limited *(Note)*	**107**	–

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL OVERVIEW

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

Restaurants Operation

For the six months ended 30 June 2017, the Group operated four full-service restaurants in Hong Kong and a full-service restaurant 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 which was opened at the end of October in 2015 under a new brand name of "Beijing House (京香閣)". All of the Group's restaurants are strategically located 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 2017, the Group had five restaurants in Hong Kong, two of which were located in Sheung Wan (i.e. the Sheung Wan Restaurant and the Beijing House Restaurant) and the remaining three were located in Tsim Sha Tsui (i.e. The One Restaurant), Causeway Bay (i.e. the CWB Restaurant) and Olympian City (i.e. the Olympian Restaurant), respectively. The Group's restaurant in Shenzhen, the PRC is located in Futian District (i.e. the Shenzhen Restaurant).

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, the Group recorded a total revenue of approximately HK$139.1 million, representing an increase of approximately 5.2% as compared to approximately HK$132.2 million for the six months ended 30 June 2016.

The Group's total revenue for the six months ended 30 June 2017 comprised the aggregate revenue of the five restaurants in Hong Kong of approximately HK$90.2 million (2016: approximately HK$90.9 million) and the revenue of the Shenzhen Restaurant of approximately HK$48.9 million (2016: approximately HK$41.3 million).

The aggregate revenue of the Group's restaurants in Hong Kong for the six months ended 30 June 2017 slightly decreased by approximately 0.8% and was relatively stable as compared to the six months ended 30 June 2016. On the other hand, the increase in revenue of the Shenzhen Restaurant by approximately 18.3% over the periods was mainly due to the continued growth of the Cantonese restaurant industry in Shenzhen, the PRC.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$98.6 million for the six months ended 30 June 2017, representing an increase of approximately 6.7% from approximately HK$92.4 million for the six months ended 30 June 2016, which was in line with the increase in revenue during the Period. Besides, the Group's overall gross profit margin increased from approximately 69.9% for the six months ended 30 June 2016 to approximately 70.9% for the six months ended 30 June 2017, which was mainly due to the overall decline in the cost of food ingredients purchased during the Period as compared to the corresponding period in 2016.

Employee benefits expenses

Employee benefit expenses was approximately HK$31.6 million for the six months ended 30 June 2017 (2016: approximately HK$32.3 million), representing a decrease of approximately 2.4% as compared to the corresponding period in 2016. Such decrease was mainly due to the improved labour cost control of operational staff of the Sheung Wan Restaurant and the Beijing House (which were opened at the end of October 2015) upon their operations, which were progressively put on track in 2016. Moreover, the Group also enhanced its staff cost control measures during the Period. Going forward, the Group will continue to closely monitor the cost control in respect of staff salaries, and at the same time the Group will regularly review the work allocation of the staff in order to improve the overall work efficiency and maintain a high quality standard of service.

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 six months ended 30 June 2017, other expenses amounted to approximately HK$51.3 million (2016: HK$51.0 million), which was relatively stable as compared to the corresponding period in 2016.

Profit/(loss) attributable to owners of the Company

For the six months ended 30 June 2017, the Group's profit attributable to owners of the Company was approximately HK$7.8 million, representing an increase in profit by approximately HK$14.0 million from a loss attributable to owners of the Company of approximately HK$6.1 million for the six months ended 30 June 2016. Such increase was mainly due to the combined net effects of (i) the Sheung Wan Restaurant and the Beijing House Restaurant, which were opened at the end of October 2015, incurred an operating loss of approximately HK$2.6 million for the six months ended 30 June 2016 while their operating loss was reduced to approximately HK$1.0 million for the Period upon their operations have been gradually put on track since the second half of 2016; (ii) the operating profit of the Shenzhen Restaurant significantly increased by approximately HK$6.6 million over the periods, mainly as a result of the increase in revenue and hence gross profit generated; (iii) the overall improvement of the Group's gross profit margin from approximately 69.9% to 70.9% over the periods; (iv) the Group incurred listing expenses of approximately HK$7.6 million for the six months ended 30 June 2016 while there was no such expenses recorded for the Period; and (v) the increase in income tax expense by approximately HK$2.0 million over the periods.

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.

Consistent with others in the industry, 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 2017, was to lower the gearing ratio to an acceptable level.

As at 30 June 2017, the Group's cash and cash equivalents were approximately HK$68.6 million, representing a decrease of approximately 17.9% as compared with approximately HK$83.6 million as at 31 December 2016. The decrease was mainly due to the deposits paid of renovation expenditure for the Shenzhen Uniwalk Restaurant which is expected to be opened in the second half of 2017.

As at 30 June 2017, cash and cash equivalents and restricted bank deposits of approximately HK$82.6 million included HK$64.5 million and HK$18.1 million which were denominated in Hong Kong dollars and Renminbi, respectively.

Indebtedness and Banking Facilities

As at 30 June 2017, the Group had bank borrowings of approximately HK$16.5 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 3.5% per annum and were secured by pledged bank deposits of approximately HK$14.0 million.

As at 30 June 2017, the Group's gearing ratio was approximately 14.3%, which is calculated based on the interest-bearing debt divided by total equity attributable to owners of the Company as at 30 June 2017 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 2017 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 under review. 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 2017, 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 2017.

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

On 13 February 2017, Keen Nation Limited, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with Mr. Tsang Kwok Hing ("**Mr. Tsang**"), an independent third party of the Company, in relation to the proposed acquisition of 60% issued shares in Profit Shiner Investment Limited which engages in the operation of a Thai cuisine restaurant in Hong Kong (the "**Proposed Acquisition**"). As certain conditions precedent have not been satisfied or waived by the Group on or before the long stop date and no extension of time was agreed by the parties, the acquisition agreement had lapsed in accordance with the terms thereof and the Proposed Acquisition was not proceeded with as at 31 May 2017. Please refer to the Company's announcements dated 13 February 2017, 17 February 2017 and 31 May 2017, respectively, for further details.

Save as disclosed above, there was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2017. Save as disclosed in this announcement, there was no plan for material investment or capital assets as at 30 June 2017.

Commitments

As at 30 June 2017, the Group had no significant outstanding contracted capital commitments.

Charge on Assets

As at 30 June 2017, the Group pledged its bank deposits of approximately HK$14.0 million as securities for the Group's bank borrowings of HK$16.5 million. Save as disclosed above, the Group did not have any charge over assets.

Contingent Liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 360 employees as at 30 June 2017. The employee benefits expense, including Directors' emoluments, of the Group were approximately HK$31.6 million and HK$32.3 million for the six months ended 30 June 2017 and 2016, 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 2017, 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 2017 (six months ended 30 June 2016: nil).

Prospects

The successful listing of the Group on the GEM of the Stock Exchange marks a major milestone as well as a new chapter of the Company. Due to the uncertainties of the Hong Kong economy, 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; and

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

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 confident that the Group can succeed and enhance the shareholders' value, based on the years of experience of the senior management of the Company in managing Chinese restaurant business in Hong Kong and its business strategies as detailed below.

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. 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 of the Group's available resources, with the aim of optimizing the return to its Shareholders.

Comparison of Business Plan with Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to six months ended 30 June 2017.

		Business objectives up to 30 June 2017 as stated in the Prospectus	Actual business progress up to 30 June 2017
1.	Progressive expansion in the PRC market	Capital expenditure for the Group's new restaurants to be opened in Shenzhen, the PRC	(i) In respect of the Shenzhen One Avenue Restaurant, the Group was pending the handover of the restaurant premises by the landlord upon completion of construction of the shopping mall regarding the new restaurant. (ii) The restaurant premises of the Shenzhen Uniwalk Restaurant was handed over in March 2017. The renovation has been commenced and is currently expected to be completed in September 2017. (iii) A number of contracts have been signed for renovation and acquisition of equipment for the Shenzhen Uniwalk Restaurant, with a total contract sum of approximately HK$28.7 million.
2.	Enhancement of existing restaurant facilities	Refurbishment and acquisition, upgrading or replacement of existing equipment and facilities	The refurbishment, upgrading and replacement of existing equipment facilities for The One Restaurant had been completed.

		Business objectives up to 30 June 2017 as stated in the Prospectus	Actual business progress up to 30 June 2017
3.	Enhancement of marketing and promotions	Launch of marketing activities for promoting brand image	The promotion of wedding banquet service had been launched through participation in wedding exhibition and other marketing activities including meal sets promotion through media, website's cash coupons and bank credit card promotion.

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 2017, the net proceeds from placing were applied as follows:

	Planned use of proceeds as stated in the Prospectus up to 30 June 2017 *HK$'000*	Actual use of proceeds up to 30 June 2017 *HK$'000*
Progressive expansion in the PRC market	26,000	18,506
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 2017, approximately HK$23.0 million out of the net proceeds from the Listing had been used. The unused net proceeds were deposited in licensed banks in Hong Kong.

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 2017.

Directors' and Controlling Shareholders' Interests in Competing Business

On 10 January 2017, the Company was notified by Ms. Chan Josephine Wai Sze ("**Ms. Chan**"), a close associate of Mr. Chan, that Ms. Chan was offered by Mr. Tsang Kwok Hing ("**Mr. Tsang**") to acquire 60% issued shares of Profit Shiner Investment Limited (the "**Business Opportunity**"). Given the business of Profit Shiner Investment Limited may compete with the business of the Group, the Group was given a right of first refusal (the "**Right of First Refusal**") to take up the business opportunity (the "**Business Opportunity**") in accordance with the Deed of Non-Competition.

On 13 February 2017 (after trading hours), the Company has resolved to exercise the Right of First Refusal. On the same date, Keen Nation Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Tsang, pursuant to which Mr. Tsang conditionally agreed to sell and Keen Nation Limited conditionally agreed to acquire, 180,000 ordinary shares of Profit Shiner Investment Limited at the consideration of HK$1,800,000, which shall be satisfied by internal resources of the Group in the form of cash (the "**Proposed Acquisition**"). The acquisition agreement had lapsed on 31 May 2017 and the Group did not proceed with the Proposed Acquisition. The Business Opportunity was not taken up by Ms. Chan either.

For further details of the Proposed Acquisition, the exercise of Right of First Refusal and the termination of the Proposed Acquisition, please refer to the announcements of the Company dated 13 February 2017, 17 February 2017 and 31 May 2017, respectively.

Save as disclosed above, during the six months ended 30 June 2017 and up to the date of this announcement, none of the Directors or any of their respective associates, engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest 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 15 of the GEM Listing Rules. For the six months ended 30 June 2017, 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 2017, 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 Rules 5.48 to 5.67 of the GEM 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 2017.

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 2017.

The Company did not redeem any of its listed securities during the six months ended 30 June 2017.

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 2017 and there were no outstanding share options under the Share Option Scheme as at 30 June 2017.

Compliance Advisor's Interests

As at 30 June 2017, as notified by the Company's compliance advisor, Ample Capital Limited (the "**Compliance Advisor**"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated 20 June 2016, neither the Compliance Advisor nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee and Review of Accounts

The Company has established the Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM 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 2017 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, 9 August 2017

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.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for seven days from the day of its posting and on the website of the Company at http://www.starofcanton.com.hk.