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Kafelaku Coffee Holding Limited
猫屎咖啡控股有限公司

(formerly known as 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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Kafelaku Coffee Holding Limited (the "**Company**", together with its subsidiaries, collectively known as the "**Group**") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2023 (the "**Year**"), together with the comparative figures for the previous financial year ended 31 December 2022 as set out below. This annual results announcement has been reviewed by the audit committee of the Company (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

- The revenue of the Group amounted to approximately HK$178.5 million for the year ended 31 December 2023, representing an increase of approximately 31.7% as compared with the year ended 31 December 2022.

- The profit attributable to owners of the Company amounted to approximately HK$8.0 million for the year ended 31 December 2023, compared to a loss attributable to owners of the Company of approximately HK$41.4 million for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
Revenue	6	**178,523**	135,552
Other income	7	**2,918**	7,180
Cost of materials consumed		**(63,878)**	(51,730)
Employee benefits expense		**(51,946)**	(50,801)
Depreciation	8	**(24,479)**	(40,115)
Other expenses	8	**(39,554)**	(44,355)
Operating profit/(loss)		**1,584**	(44,269)
Gain on early termination of leases, net		**5**	24,879
Gain on deconsolidation of a subsidiary	9	**17,821**	–
Impairment loss on property, plant and equipment		**(563)**	(6,015)
Impairment loss on right-of-use assets, net		**(3,536)**	(10,947)
Finance costs	10	**(7,766)**	(9,865)
Profit/(Loss) before income tax		**7,545**	(46,217)
Income tax credit	11	**427**	3,123
Profit/(Loss) for the year		**7,972**	(43,094)
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		**1,044**	(199)
Total comprehensive income/(loss) for the year		**9,016**	(43,293)
Profit/(Loss) attributable to:			
Owners of the Company		**7,987**	(41,352)
Non-controlling interests		**(15)**	(1,742)
		7,972	(43,094)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**8,896**	(41,913)
Non-controlling interests		**120**	(1,380)
		9,016	(43,293)
Basic earnings/(loss) per share	13	**HK cent 0.72**	HK cent (4.12)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**15,450**	18,794
Right-of-use assets		**43,771**	62,847
Rental deposits		**6,922**	6,502
Deferred tax assets		**3,582**	3,244
		69,725	91,387
Current assets			
Inventories		**9,785**	9,412
Trade receivables	14	**1,713**	1,603
Deposits, prepayments and other receivables		**9,795**	13,745
Loan receivable		**–**	1,470
Current tax recoverable		**103**	6
Amounts due from related companies		**7**	7
Financial asset at fair value through profit or loss		**–**	791
Cash and cash equivalents		**16,880**	23,503
		38,283	50,537
Total assets		**108,008**	141,924
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	**11,051**	11,051
Reserves		**(63,837)**	(72,651)
		(52,786)	(61,600)
Non-controlling interests		**(4,942)**	(5,062)
Total deficits		**(57,728)**	(66,662)

		As at 31 December	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities		**52,024**	74,794
Provision for reinstatement costs		**3,081**	3,475
		55,105	78,269
Current liabilities			
Trade payables	16	**10,439**	11,638
Accruals and other payables		**44,567**	50,640
Amount due to a non-controlling shareholder		**1,228**	1,262
Amounts due to related companies		**1,556**	1,117
Amount due to a former director		**8,488**	–
Amounts due to directors		**2,052**	–
Contract liabilities		**18,389**	16,903
Bank borrowings	17	**–**	20,776
Lease liabilities		**21,962**	26,031
Provision for reinstatement costs		**1,950**	1,950
		110,631	130,317
Total liabilities		**165,736**	208,586
Total deficits and liabilities		**108,008**	141,924
Net current liabilities		**(72,348)**	(79,780)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Kafelaku Coffee Holding 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 offices is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. During the Year, the address of the Company's principal place of business in Hong Kong was Room B, 5/F, On Fat Industrial Building, 12–18 Kwai Wing Road, Kwai Chung, New Territories, Hong Kong. The Company's principal place of business in Hong Kong has been changed to 26/F, Chinachem Century Tower, 178 Gloucester Road, Wan Chai, Hong Kong since 18 January 2024. The Company's shares (the "**Shares**") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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**" or "**China**").

2 STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the Year have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) (the "**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 (the "**Listing Rul**es").

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

3 PRINCIPAL ACCOUNTING POLICIES

3.1 As at 31 December 2023, the Group had net liabilities of approximately HK$57,728,000 and its current liabilities exceeded its current assets by approximately HK$72,348,000.

Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

The Group has taken a number of measures to improve its liquidity position, including, but not limited to, the following:

(i) the Group is actively seeking additional external funding (including but not limited to bank borrowings) to finance the Group's working capital and improve its liquidity positions;

(ii) the Group will continue to take active measures to control expenses through various channels including human resources optimisation and management remuneration adjustments; and

(iii) a controlling shareholder and a director of the Company, Mr. Liang Naiming, has agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations.

After taking into consideration of the above factors and funds expected to be generated internally from operations based on the Directors' estimation on the future cash flows of the Group, the Directors are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively.

The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3.2 The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's consolidated financial statement for the year ended 31 December 2022.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs, which are effective for accounting periods beginning on or after 1 January 2023. The Group has adopted the following new and revised standards for the first time for the current year's consolidated financial statements:

HKFRS 17	Insurance contracts
Amendments to HKAS 8	Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
Amendments to HKAS 1	Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies
Amendments to HKAS 12	Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	Income taxes: International tax reform – Pillar Two model rules

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

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented. The adoption of these amendment does not have any significant effect on the results and financial position of the Group.

Amendments to HKAS 12, Income taxes: International tax reform – Pillar Two model rules

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (income tax arising from such tax laws is hereafter referred to as "**Pillar Two income taxes**"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

The Group has not early applied any other new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period.

New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

The Company and its subsidiary are operating in Hong Kong which are obliged to pay long service payment ("**LSP**") to employees under certain circumstances. Meanwhile, the Group makes mandatory provident fund ("**MPF**") contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "**Abolition**"). The Abolition will officially take effect on 1 May 2025 (the "**Transition Date**"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA's guidance, as a result of the Abolition, these contributions are no longer considered "linked solely to the employee's service in that period" since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as "independent of the number of years of service" and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19.

Based on management's assessment, the liability of LSP benefits was immaterial for the Group due to the number of employees in Hong Kong was not significant, therefore, the abovementioned change has had no material impact on the Group's financial positions and performance.

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 chief executive officer of the Company (the "**CEO**") 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 2022 and 2023, 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 2022 and 2023 by geographic area.

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Revenue from external customers		
Hong Kong	**19,124**	26,595
Mainland China	**159,399**	108,957
	178,523	135,552

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

	31 December 2023	31 December 2022
	HK$'000	*HK$'000*
Non-current assets		
Hong Kong	**1,819**	2,926
Mainland China	**57,402**	78,715
	59,221	81,641

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

6 REVENUE

An analysis of revenue during the years ended 31 December 2022 and 2023 are as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Revenue from customers and recognised at point in time		
Revenue from Chinese restaurant operations	**178,523**	131,197
Revenue from Thai cuisine restaurant operations	**–**	4,338
Revenue from cooperation with Freshippo	**–**	17
	178,523	135,552

7 OTHER INCOME

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Interest income on short-term bank deposits	**306**	164
Interest income on loan receivable	**95**	88
Reversal of provision for reinstatement cost, net	**–**	361
Reversal of impairment loss on loan receivable	**1,883**	–
Government subsidies and incentive	**181**	757
Government grants	**–**	3,947
Miscellaneous income	**453**	377
Forfeiture of deposits received	**–**	1,486
	2,918	7,180

8 DEPRECIATION AND OTHER EXPENSES

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Depreciation		
– Property, plant and equipment	**7,767**	14,482
– Right-of-use assets	**16,712**	25,633
	24,479	40,115
Other expenses include the following items:		
Auditor's remuneration		
– Audit services		
– current year	**1,222**	1,020
– overprovided in prior year	**(2)**	–
– Non audit services		
– current year	**–**	192
– overprovided in prior year	**(40)**	–
Operating lease payments of premises		
– Contingent rent for premises (i)	**504**	27
– Coronavirus disease 2019 ("**COVID-19**") rent concessions	**–**	(1,664)
Lease payments not included in the measurement of lease liabilities	**563**	2,015
Impairment loss on trade receivables	**36**	51
Impairment loss on loan receivable	**–**	1,983
Property, plant and equipment written-off	**–**	15
Bad debt written-off	**237**	53

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

9 GAIN ON DECONSOLIDATION OF A SUBSIDIARY

Orient Century Limited ("**OC**"), an indirectly wholly owned subsidiary of the Company, operated a Thai cuisine restaurant in Mongkok, Hong Kong and a Chinese restaurant in Olympian City, Hong Kong which ceased operation on 25 August 2022 and 26 September 2022, respectively. For further information on the closure of the operation of these two restaurants, please refer to the announcements of the Company dated 21 September 2022 and 26 September 2022.

OC received a winding-up petition dated 24 July 2023 filed by a creditor, Fung Sau Kuen, as petitioner against OC in the Court of First Instance of Hong Kong in the sum of approximately HK$178,000.

OC received a sealed order dated 27 September 2023 for winding-up (the "**Winding-up Order**") made by the Court of First Instance of Hong Kong, pursuant to which OC was ordered to be wound up on the basis of its failure to settle the judgement debt in the sum of approximately HK$178,000. Messrs Wong Sun Keung and Tsui Mei Yuk Janice were appointed as joint and several liquidators of OC on 27 September 2023 by the Court of First Instance of Hong Kong.

By virtue of the Winding-up Order, OC ceased to be controlled by the Company with effect from 27 September 2023. Accordingly, the Directors believe that OC does not meet the control assessment under HKFRS 10, hence, the Group has deconsolidated OC on 27 September 2023 and gain on deconsolidation of a subsidiary of approximately HK$17,821,000 was credited to profit or loss during the Year.

Details of gain on deconsolidation of OC for the year ended 31 December 2023 are as follows:

	HK$'000
Deposits, prepayment and other receivables	3,105
Cash and cash equivalents	67
Amounts due to related companies	(617)
Trade payables	(400)
Accruals and other payables	(11,368)
Provision for reinstatement costs	(324)
Lease liabilities	(8,202)
Amounts due to group companies	(15,541)
Net liabilities disposed of	(33,280)
Release of other reserve	(82)
Current accounts with OC	15,541
Gain on deconsolidation of a subsidiary	(17,821)
Net cash outflow arising from deconsolidation of OC	67

10 FINANCE COSTS

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Interest expenses on bank borrowings	**509**	631
Interest expenses on lease liabilities	**7,257**	9,205
Interest expenses on loan from a director	**–**	29
Total interest expenses on financial liabilities not at fair value through profit or loss	**7,766**	9,865

11 INCOME TAX

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Current tax		
Overprovided in prior year	**–**	(83)
	–	(83)
Deferred tax		
Origination and reversal of temporary differences	**(427)**	(3,040)
Income tax credit	**(427)**	(3,123)

No provision for Hong Kong profits tax is made in the consolidated financial statements as the Group has no assessable profits derived in Hong Kong for the years ended 31 December 2022 and 2023.

No provision for the PRC income tax is made in the consolidated financial statements in respect of profit for the Year as the Group has sufficient tax losses brought forward available to offset the current year's estimated assessable profits (2022: Nil).

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 2022 and 2023.

12 DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the Year (2022: Nil).

13 EARNINGS/(LOSS) PER SHARE

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

	Year ended 31 December	
	2023	2022
	HK$'000	*HK$'000*
Profit/(Loss)		
Profit/(Loss) for the year attributable to the owners of the Company	**7,987**	(41,352)

	2023	2022
	'000	*'000*
Number of Shares		
Weighted average number of Shares for the purpose of calculating basic earnings per Shares	**1,105,100**	1,004,895

Diluted earnings/(loss) per Shares was the same as basic earnings/(loss) per Share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2022 and 2023.

14 TRADE RECEIVABLES

	31 December 2023 *HK$'000*	31 December 2022 *HK$'000*
Trade receivables	**1,912**	1,872
Less: Allowance for impairment losses	**(199)**	(269)
	1,713	1,603

Trade receivables from restaurant operations are mainly receivables from financial institutions in relation to the payment by credit cards and mobile payment by customers. 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 2023 *HK$'000*	31 December 2022 *HK$'000*
0 to 30 days	**1,488**	1,213
31 to 60 days	**67**	109
61 to 90 days	**17**	18
Over 90 days	**141**	263
	1,713	1,603

The Group applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

15 SHARE CAPITAL

	Number of Ordinary shares	**Nominal value of Ordinary share** *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each as at 1 January 2022, 31 December 2022 and 2023	2,000,000,000	20,000
Issued and fully paid:		
As at 1 January 2022	1,000,000,000	10,000
Issue of shares upon placing	105,100,000	1,051
As at 31 December 2022 and 2023	1,105,100,000	11,051

16 TRADE PAYABLES

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

	31 December 2023 *HK$'000*	31 December 2022 *HK$'000*
0 to 30 days	**4,956**	2,284
31 to 60 days	**1,841**	2,751
61 to 90 days	**1,181**	1,273
Over 90 days	**2,461**	5,330
	10,439	11,638

17 BANK BORROWINGS

	31 December 2023 *HK$'000*	31 December 2022 *HK$'000*
Bank borrowings due for repayment within one year – unsecured	**–**	3,192
Bank borrowings due for repayment after one year which contain a repayment on demand clause – unsecured	**–**	17,584
	–	20,776

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.

As at 31 December 2023, the Group operated one full-service restaurant in Hong Kong under the brand name of "Li Bao House (利寶會館)" (the "**Central Restaurant**") (i.e. a high class Chinese restaurant for the Group and main brand focus on high-class Cantonese cuisine and attract customers who put a high value on quality with luxurious decorations), which was opened on 28 November 2022, and three full-service restaurants in Shenzhen, the PRC, under the brand name of "Star of Canton (利寶閣)" (the "**Shenzhen Restaurants**").

Although there is a gradual resumption of economic activities in both Hong Kong and the PRC, the catering industry is still facing challenges and the business environment remains weak as compared to that before the coronavirus disease 2019 ("**COVID-19**") pandemic. The Group remained vigilant by constantly adjusting the menu mix and taking measures to optimize operations and enhance production efficiency, so as to cope with the unpredictable market environment.

The management of the Group periodically evaluates the business potential, location, customer traffic, store layout and rental terms of the Group's existing and potential restaurants. In response to the prevailing operating environment in Hong Kong and the PRC, the Group has in place active cost control measures to ensure that the resources of the Group are deployed efficiently. The Group will continue to strengthen its position in operating restaurants in Hong Kong and the PRC and look for suitable opportunities to expand our business in the regions.

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 2023, the Group had,

In Hong Kong:

(i) one Chinese restaurant, which was located in Central, Hong Kong (i.e. the Central Restaurant); and

In Shenzhen, the PRC:

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

Since the business environment remains weak, the expansion plan of the Group has been delayed.

FINANCIAL REVIEW

Revenue

For the Year, the Group recorded a total revenue of approximately HK$178.5 million, representing an increase of approximately 31.7% as compared to approximately HK$135.6 million for the year ended 31 December 2022 (the "**Previous Year**").

The Group's total revenue for the Year mainly comprised:

(1) the revenue derived from the restaurant business in Hong Kong of approximately HK$19.1 million (2022: approximately HK$26.6 million), which decreased by approximately 28.1% mainly due to the closure of three Chinese and one Thai cuisine restaurants in Hong Kong during the Previous Year; and

(2) the aggregate revenue of the three Chinese restaurants in Shenzhen, the PRC, of approximately HK$159.4 million (2022: approximately HK$108.9 million), increased by approximately 46.3%, which was mainly due to the gradual business rebound during the Year.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$114.6 million for the Year, representing an increase of approximately 36.8% from approximately HK$83.8 million for the Previous Year, which was in line with the increase in revenue of approximately 31.7% during the Year. Furthermore, the Group's overall gross profit margin slightly increased to approximately 64.2% for the Year (2022: 61.8%).

Employee benefits expense

Employee benefits expense was approximately HK$51.9 million for the Year (2022: approximately HK$50.8 million), representing an increase of approximately 2.3% as compared to 2022 which was due to the increase in the number of staff of one of the Shenzhen Restaurants which was under staff headcount freeze in the Previous Year. Going forward, the Group will closely monitor the cost control in respect of staff salaries, and regularly review the work allocations of the staff in order to improve work efficiency and maintain high quality services.

Depreciation

Depreciation in respect of the right-of-use assets in relation to the Group's leased properties for the Year was approximately HK$16.7 million (2022: HK$25.6 million).

Other expenses

Other expenses mainly include but not limited to expenses incurred for the Group's restaurant operations, consisting of operating lease expenses, building management fees, air conditioning charges, cleaning and laundry expenses, utility expenses, service fees to temporary workers, advertising and promotions. For the Year, other expenses amounted to approximately HK$39.6 million (2022: HK$44.4 million), representing a decrease of approximately HK$4.8 million or 10.8% which was mainly due to the combined effects of (i) no impairment loss on loan receivable as compared to approximately HK$2.0 million in the Previous Year; (ii) the decrease of lease payment of approximately HK$1.5 million which was not included in the measurement of lease liabilities; (iii) no COVID-19 rent concessions was granted during the Year as compared to approximately HK$1.7 million during the Previous Year; and (iv) the decrease of building management fee and air conditioning charge of approximately HK$3.2 million.

Gain on early termination of leases

The gain on early termination of leases of approximately HK$5,000 (2022: HK$24.9 million) was mainly resulted from termination of leases of the staff quarters in the PRC during the Year. The sharp decrease was because of the termination of leases held by the two Chinese restaurants in Previous Year. The gain represented the amount of reversal of remaining lease liabilities in excess of the carrying value of related right-of-use assets.

Gain on deconsolidation of a subsidiary

Orient Century Limited ("**OC**") is an indirectly wholly owned subsidiary of the Company. It owned one Thai restaurant and one Chinese restaurant in 2022, but both restaurants were closed in August 2022 and September 2023, respectively. For details, please refer to the announcement titled "Voluntary Announcement – Business Update" dated 21 September 2023 and "Inside Information – Business Update" dated 26 September 2023, respectively.

Due to the above-mentioned closure of the two restaurants, the Company provided a full impairment on its right-of-use assets and property, plant and equipment on the consolidated financial statements in 2022.

OC received a winding-up petition dated 24 July 2023 filed by a creditor, Fung Sau Kuen, as petitioner against OC in the Court of First Instance of Hong Kong of the sum of approximately HK$178,000. OC received a sealed order dated 27 September 2023 for winding-up (the "**Winding-up Order**") made by the Court of First Instance of Hong Kong pursuant to which OC was ordered to be wound up on the basis of its failure to settle the judgement debt in the sum of approximately HK$178,000. By virtue of the Winding-up Order, OC was ceased to be controlled by the Company with effect from 27 September 2023. The Directors believe that OC does not meet the control assessment under HKFRS 10, hence, the Company has deconsolidated OC on 27 September 2023 and a gain on deconsolidation of a subsidiary of approximately HK$17.8 million was credited to profit or loss during the year ended 31 December 2023.

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

The impairment loss on right-of-use assets and property, plant and equipment amounting to approximately HK$3.5 million (2022: HK$10.9 million) and HK$0.6 million (2022: HK$6.0 million), respectively, for the Year. The decrements were because of the impairment losses arising from the unsatisfactory performance of Chinese restaurants in Previous Year.

Finance costs

Finance costs for the Year were approximately HK$7.8 million (2022: HK$9.9 million) in respect of interest expense on lease liabilities in relation to the Group's leased property, plant and equipment.

Profit attributable to owners of the Company

For the Year, the Group recorded a profit attributable to owners of the Company of approximately HK$8.0 million, whereas the Group recorded a loss attributable to owners of the Company of approximately HK$41.4 million for the Previous Year. Such profit-making position for the Year was mainly attributable to the combined effects of (i) the record of the gain on deconsolidation of a subsidiary of approximately HK$17.8 million; (ii) the decrease in the impairment loss on property, plant and equipment of approximately HK$5.5 million; (iii) the decrease in the impairment loss on right-of-use assets of approximately HK$7.4 million; (iv) the decrease in the finance costs of approximately HK$2.1 million; and (v) the decrease in gain on early termination of lease of approximately HK$24.9 million.

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 debts.

The Group monitors its capital on the basis of the gearing ratio. The Group's strategy, which was unchanged during the Year, was to maintain the gearing ratio at an acceptable level.

As at 31 December 2023, the Group's cash and cash equivalents were approximately HK$16.9 million, representing a decrease of approximately HK$6.6 million as compared with approximately HK$23.5 million as at 31 December 2022. The decrease was mainly due to increase in cash used in operations and cash used in repaid the bank borrowings during the Year.

As at 31 December 2023, cash and cash equivalents amounted to approximately HK$16.9 million, of which approximately HK$2.6 million and approximately HK$14.2 million were denominated in Hong Kong dollars ("**HK$**") and Renminbi ("**RMB**"), respectively.

Indebtedness and Banking Facilities

As at 31 December 2023, the Group had no bank borrowings as compared to the Previous Year of approximately HK$20.8 million bank borrowings bearing interest rates at 3.375% per annum and were guaranteed by HKSAR.

As at 31 December 2023, the Group's gearing ratio, which is calculated based on the interest-bearing debts (excluding lease liabilities) divided by total equity attributable to owners of the Company (the "**Shareholders' Equity**"), was irrelevant as the Company recorded a deficit in its Shareholders' Equity as at 31 December 2023. The Directors, taking into account the nature and scale of operations and capital structure of the Group, will closely monitor the gearing ratio and will adjust its business strategies to improve it to a reasonable level.

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, the Group had not used any financial instruments for hedging purposes.

Securities in Issue

As at 31 December 2023, there were 1,105,100,000 ordinary Shares in issue. There was no movement in the issued share capital of the Company during the Year.

Placing of New Shares under General Mandate

The Company has not placed any new Shares during the Year whereas the Company placed 105,100,000 new Shares with net proceeds of approximately HK$21.07 million in the Previous Year (the "**2022 Placing**").

Please refer to the section "Use of proceeds from the 2022 Placing" on page 23 below for details of the use of the 2022 Placing proceeds.

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.

The Company entered into a cooperation agreement (the "**Cooperation Agreement**") with Kafelaku Coffee International Holding Limited to establish a joint venture company (the "**JV**"). For details, please refer to the Company's announcement dated 18 November 2022. As no JV has been set up within one year and the Cooperation Agreement has automatically expired, the Company intends to develop its coffee business through its wholly owned subsidiary. Save as the above, there was no plan for material investment or capital assets as at 31 December 2023.

Charge on Assets

As at 31 December 2023, the Group did not have any charge over its assets (2022: nil).

Contingent Liabilities

On 31 December 2019, Excel Linker (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company received a Writ of Summons together with an indorsement of claim dated 31 December 2019 issued in the High Court of Hong Kong (the "**Court Action**") by Foxhill Investments Limited as plaintiff against Excel Linker (Hong Kong) Limited as defendant. For details, please refer to the announcement titled "Inside Information – Litigation" dated 6 January 2020. A provision of HK$13.4 million has been made in the consolidated financial statements as at 31 December 2023 (2022: HK$9.3 million). The Company is of the view that the Court Action did not and will not have any material adverse impact on the ordinary operation and financial positions of the Group. To the best knowledge of the Directors, no trial in relation to the Court Action has been scheduled up to the date of this announcement.

Saved as disclosed above, as at 31 December 2023, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 430 employees as at 31 December 2023 (2022: 408). The employee benefits expense, including Directors' emoluments, of the Group were approximately HK$51.9 million (2022: HK$50.8 million), increased by approximately 2.3% compared to 31 December 2022. The employee benefits expenses remained relatively stable as compared to the Previous Year.

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 (as defined and described on page 26 below). During the Year, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Board has resolved not to recommend the payment of any final dividend for the Year (2022: Nil).

Prospects

The Directors believe that, from the perspective of mid-to-longer terms, the Chinese government will gradually implement various stimulus policies, so a boost in consumer confidence and hence an improvement of and in turn the increase in the revenue in the catering industry in China can be expected. However, the catering industry still faces several challenges and the business environment still remains weak as compared to that before the COVID-19 pandemic. 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 Hong Kong and China economies may be further worsened as a result of the unfavourable development of the China-US trade war, the Ukraine war and the Israel-Gaza war, which would negatively affect the consumption sentiments of the general public and consequently the retail and catering sectors;

(ii) the unforeseeable trend of in interest rates in Hong Kong may affect the consumers' spending sentiments which will adversely affect the business of the Group's restaurants in the year to come;

(iii) 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;

(iv) 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; and

(v) there may be labour shortage in the future and intensive competition for qualified individuals in the food and beverage industry.

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**").

It is expected that more policies will be announced by the Chinese and Hong Kong governments to support and stimulate consumer spending such as the expansion of the "Individual Visit Scheme" (港澳自由行) to more Mainland China cities, and that the Group can benefit from these policies.

Despite of this, Hong Kong citizens have become used to visiting the Mainland China over the weekends, which may impede the growth of the Hong Kong operation of the Group.

Going forward, the Group will continue to utilise available resources to implement its business strategies, namely, steady growth and prudent 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. In this process, the Group will continue to maintain its commitment to quality as always. For the time being, the Group will put more effort into online marketing to promote existing business and to increase market share. After rebranding, the Group intends to develop coffee business in the PRC so as to diversify the Group's catering business.

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.

Use of proceeds from the 2022 Placing

The Company's 2022 Placing was completed on 15 December 2022 with proceeds received by the Company in the amount of approximately HK$21.07 million after deducting underwriting commissions and related expenses. For details, please refer to the Company's announcements dated 22 November, 6 December and 15 December (collectively, the "**Placing Announcements**").

As at 31 December 2023, the net proceeds from the 2022 Placing were applied as follows:

	Planned use of net proceeds as stated in the placing announcement dated 15 December 2022	**Actual use of net proceeds up to 31 December 2023**
	HK$'000	*HK$'000*
For replenishing the working capital of the Group	9,069	9,069
For repayment of debts	4,000	4,000
For developing the Group's businesses in Hong Kong and in the PRC	8,000	8,000

As a result, all the net proceeds from the 2022 Placing have been utilised as planned as at 31 December 2023.

CORPORATE GOVERNANCE

The Company is committed to ensure a high standard of corporate governance in the interests of the Shareholders and devote 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 section headed "Part 2 – Principles of good corporate governance, code provisions and recommended best practices" of Corporate Governance Code (the "**CG Code**") in Appendix C1 (formerly 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, except for certain deviations as specified with considered reasons for such deviations which are explained below.

Under Code Provision C.2.1 of the CG Code, the roles of the chairman of the Board (the "**Chairman**") and chief executive officer (the "**CEO**") of the Company should be separated and should not be performed by the same individual.

For the Year, the Company has not separated the roles of Chairman and the CEO. During the period from 1 January 2023 to 2 November 2023, Mr. Chan Chun Kit acted as both the Chairman and the CEO. Since 2 November 2023, Mr. Liang Naiming ("**Mr. Liang**") has become the Chairman and the CEO and is responsible for overseeing the operations of the Group.

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.

In view of the fact that Mr. Liang has the relevant food and beverage operation and management experience since 2003, the Board believes that it is in the best interests of the Group to have Mr. Liang taking up both roles for effective management and business development.

The Board also believes that vesting the roles of both the Chairman and the CEO 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 the roles of the Chairman and the CEO has been performing by a single person during the Year, 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 CEO 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 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 the Chairman and the CEO at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Details of the continuing evolution of our corporate governance practices for the Year will be set out in the annual report for the Year. The Board will periodically review the Company's corporate governance functions and will continuously improve the Company's corporate governance practices by assessing their effectiveness with evolving standards to meet changing circumstances and needs.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Appendix C3 (formerly Appendix 10) to the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the Shares (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, except Mr. Chow Yiu Pong David ("**Mr. Chow**"), a former non-executive Director. Mr. Chow has resigned on 2 November 2023.

During the 30 days before the Company announced its interim results for the six months ended 30 June 2023 (i.e., the blackout period), Mr. Chow indirectly disposed of certain shares of the Company in contravention of code provision A.3(a) and B.8 of the Code of Conduct.

The Company has taken the following remedial steps to avoid the re-occurrence of similar incident:

- communicated and reminded all the Directors, including Mr. Chow, of the blackout period and the restrictions on directors' dealing in the securities of the Company under the Code of Conduct; and

- recirculated the Code of Conduct to all the Directors, including Mr. Chow, and reminded them of the procedures that they should follow should they wish to deal in the shares of the Company.

The Board considers that by taking the aforesaid remedial measures, it would be sufficient to remind the Directors regarding the dealing restrictions during the blackout period and the procedures that they need to follow before dealing in the securities of the Company. The Board therefore considered that the implementation of the above measures would minimize the chance of breaching the Code of Conduct by the Directors in the future.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the Year.

SHARE OPTION SCHEME

The share option scheme of the Company (the "**Share Option Scheme**") was adopted pursuant to a resolution passed by the 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 and there were no outstanding share options under the Share Option Scheme as at 31 December 2023.

The Remuneration Committee has reviewed the Share Option Scheme at its meeting held on 27 March 2024.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") is scheduled to be held at 26/F, Chinachem Century Tower, 178 Gloucester Road, Wan Chai, Hong Kong on Friday, 24 May 2024 at 11:00 a.m. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 May 2024 to Friday, 24 May 2024, both days inclusive, during which period no transfer of the Shares will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 May 2024.

EVENTS AFTER THE REPORTING DATE OF 31 DECEMBER 2023

As disclosed in the announcement of the Company dated 18 January 2024, the head office and the principal place of business address of the Company in Hong Kong has been changed to 26/F, Chinachem Century Tower, 178 Gloucester Road, Wan Chai, Hong Kong. The telephone number and facsimile number have been changed to +852 2366 6189 and +852 2366 6983, respectively.

As disclosed in the announcement of the Company dated 19 March 2024, subsequent to the passing of a special resolution at the an extraordinary general meeting held on 19 February 2024, the Company adopted the third amended and restated memorandum and articles of association on 20 February 2024; and the Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 20 February 2024 certifying that the English name of the Company has been changed from "Li Bao Ge Group Limited" to "Kafelaku Coffee Holding Limited", and the dual foreign name in Chinese of the Company has been changed from "利寶閣集團有限公司" to "猫屎咖啡控股有限公司".

In view of the amendments to Chapter 17 of the Listing Rules which came into effect on 1 January 2023, at its meeting held on 27 March 2024, the Board has resolved to propose for the Shareholders' approval at the AGM for the adoption of a new share scheme in replacing the Share Option Scheme so as to conform with the new requirements under the Listing Rules. A circular containing detailed relevant information will be published in due course.

Save for the above, the Board is not aware of any other important event requiring disclosure that has taken place subsequent to 31 December 2023 and up to the date of this announcement.

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 Mr. Liu Huaiyu and the other two members are Mr. Wong Chun Peng Stewart and Mr. So Ting Kong.

The consolidated financial statements of the Group for the Year have been reviewed by the Audit Committee.

SCOPE OF WORK OF TING HO KWAN & CHAN ("THKC")

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in this results announcement have been agreed by the Group's independent auditor (the "**Independent Auditor**"), THKC, to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by THKC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by THKC on this results announcement.

INDEPENDENT AUDITOR

The Board hereby announces that THKC has informed the Board on 27 March 2024 that, having taken into account various factors including their currently available internal resources and effective allocation and utilisation of their resources, they will retire as the Independent Auditor upon the expiration of their current term of office at the forthcoming AGM and wishes not to seek for re-appointment at the forthcoming AGM.

The Board, with the recommendation of the Audit Committee, has resolved to propose the appointment of CL Partners CPA Limited as the new Independent Auditor to fill the vacancy following the retirement of THKC, subject to the approval of the Shareholders at the forthcoming AGM and the relevant regulatory authority.

THKC has confirmed with the Board and the Audit Committee that there are no circumstances connected with their retirement and not seeking for re-appointment as the Independent Auditor which need to be brought to the attention of the Shareholders.

The Board and the Audit Committee have confirmed that there is no specific matter in respect of the proposed change in Independent Auditor which should be brought to the attention of the Shareholders. The Board is of the view that the change in Independent Auditor will not have any significant impact on the Company's audit for the year ending 31 December 2024.

The Board would like to express its sincere gratitude to THKC for its professional and quality services rendered to the Group in the past years.

The notice convening the AGM, together with a circular containing, among others, details of the proposed change of Independent Auditor will be despatched to the Shareholders in due course in the manner as required by the Listing Rules.

EXTRACTS OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the Independent Auditor's report (the "**Report**") on the Group's consolidated financial statements for the Year. The Report will be contained in the annual report of the Company for the Year. The Report includes particulars of the material uncertainty related to going concern without qualified opinion:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRS issued by the HKICPA and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 3.1 to the consolidated financial statements which indicates that as at 31 December 2023, the Group had a net liabilities of approximately HK$57,728,000 and its current liabilities exceeded its current assets by approximately HK$72,348,000. As stated in note 3.1, these conditions, along with other matters as set forth in note 3.1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 containing all the information required by the Listing Rules will be dispatched to the Shareholders and posted on the above websites in due course.

By Order of the Board
Kafelaku Coffee Holding Limited
Liang Naiming
Chairman and Executive Director

Hong Kong, 27 March 2024

As at the date of this announcement, the executive Directors are Mr. Liang Naiming and Mr. Ma Xiaoping; the non-executive Director is Mr. Cui Zifeng; and the independent non-executive Directors are Mr. Wong Chun Peng Stewart, Mr. Liu Huaiyu and Mr. So Ting Kong.