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利·寶·閣

Li Bao Ge Group Limited

利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8102)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**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.

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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 2016 (the “**Period**”) together with the comparative figures for the corresponding period in 2015 as set out below. This interim report 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**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Revenue	6	132,229	129,751
Other income	6	303	725
Other gains and losses		(289)	(281)
Cost of materials consumed		(39,814)	(35,756)
Employee benefits expense		(32,340)	(27,363)
Depreciation		(6,675)	(5,656)
Other expenses	7	(50,976)	(46,542)
Operating profit		2,438	14,878
Listing expenses		(7,551)	–
Finance costs	8	(436)	(455)
(Loss)/Profit before income tax		(5,549)	14,423
Income tax expense	9	(580)	(2,571)
(Loss)/Profit for the period		(6,129)	11,852
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		(125)	1
Total comprehensive (expense)/income for the period		(6,254)	11,853

		Six months ended 30 June	
	<i>Note</i>	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
(Loss)/Profit attributable to:			
Owners of the Company		(6,129)	9,395
Non-controlling interests		—	2,457
		<u>(6,129)</u>	<u>11,852</u>
Total comprehensive (expense)/income attributable to:			
Owners of the Company		(6,254)	9,395
Non-controlling interests		—	2,458
		<u>(6,254)</u>	<u>11,853</u>
Basis (loss)/earnings per share	<i>11</i>	HK cent (1.02)	HK cent 1.57

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016	31 December 2015
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>12</i>	35,183	41,733
Rental deposits	<i>13</i>	15,546	15,649
Deposits placed for life insurance policies		5,403	5,139
Deferred income tax assets		5,913	4,888
		<hr/> 62,045	<hr/> 67,409
Current assets			
Inventories		6,588	6,611
Trade receivables	<i>14</i>	2,700	3,280
Deposits, prepayments and other receivables	<i>13</i>	74,247	8,390
Amounts due from related company		–	310
Current income tax recoverable		1,856	913
Pledged bank deposits	<i>15</i>	10,543	–
Cash and cash equivalents		21,301	28,060
		<hr/> 117,235	<hr/> 47,564
Total assets		<hr/> 179,280	<hr/> 114,973
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>16</i>	8,000	–
Reserves		95,039	38,474
		<hr/> 103,039	<hr/> 38,474
Total equity		<hr/> 103,039	<hr/> 38,474

		30 June 2016	31 December 2015
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Deposits received		435	242
Obligations under finance leases	18	579	689
Provision for reinstatement cost	19	3,041	3,049
Deferred income tax liabilities		53	48
		<u>4,108</u>	<u>4,028</u>
Current liabilities			
Trade payables	21	7,543	9,016
Accruals, provisions and deposits received		36,371	30,078
Amounts due to directors		–	4,520
Amounts due to related companies		–	3,539
Bank borrowings	17	26,702	24,305
Obligations under finance leases	18	223	224
Provision for reinstatement costs	19	–	93
Current income tax payable		1,294	696
		<u>72,133</u>	<u>72,471</u>
Total liabilities		<u>76,241</u>	<u>76,499</u>
Total equity and liabilities		<u>179,280</u>	<u>114,973</u>
Net current assets/(liabilities)		<u>45,102</u>	<u>(24,907)</u>
Total assets less current liabilities		<u>107,147</u>	<u>42,502</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Other reserves	Exchange translation reserve	Retained profits			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 2015 (audited)	-	-	47	-	49	20,745	20,841	(1,839)	19,002
Comprehensive income									
Profit for the year	-	-	-	-	-	9,395	9,395	2,457	11,852
Currency translation differences	-	-	-	-	-	-	-	1	1
Total comprehensive income for the year	-	-	-	-	-	9,395	9,395	2,458	11,853
Dividend paid (Note 10)	-	-	-	-	-	(840)	(840)	(360)	(1,200)
Balance as at 30 June 2015 (audited)	<u>-</u>	<u>-</u>	<u>47</u>	<u>-</u>	<u>49</u>	<u>29,300</u>	<u>29,396</u>	<u>259</u>	<u>29,655</u>
Balance as at 1 January 2016 (audited)	-	-	78	34,618	(281)	4,059	38,474	-	38,474
Comprehensive income									
Profit for the year	-	-	-	-	-	(6,129)	(6,129)	-	(6,129)
Currency translation differences	-	-	-	-	(125)	-	(125)	-	(125)
Total comprehensive expense for the year	-	-	-	-	(125)	(6,129)	(6,254)	-	(6,254)
Arising from reorganisation	-	-	(78)	78	-	-	-	-	-
Issue of new shares by placing	2,000	69,000	-	-	-	-	71,000	-	71,000
Capitalisation issue of shares	6,000	(6,000)	-	-	-	-	-	-	-
Expenses incurred in connection with issue of new shares	-	(7,880)	-	-	-	-	(7,880)	-	(7,880)
Waiver of amounts due to ultimate controlling shareholders	-	-	-	7,699	-	-	7,699	-	7,699
Balance as at 30 June 2016 (unaudited)	<u>8,000</u>	<u>55,120</u>	<u>-</u>	<u>42,395</u>	<u>(406)</u>	<u>(2,070)</u>	<u>103,039</u>	<u>-</u>	<u>103,039</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Note	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Cash flows from operating activities			
(Loss)/Profit before income tax		(5,549)	14,423
Adjustments for:			
Depreciation of property, plant and equipment		6,675	4,882
Depreciation of investment properties		–	774
Finance costs	8	436	455
Interest income	6	(133)	(111)
Unrealised exchange gain		320	(2)
Fair value loss on financial assets at fair value through profit or loss		–	1,538
Premium charged on a life insurance policies		45	49
Underprovision for reinstatement cost		129	–
Loss on disposal of property, plant and equipment		19	–
Gain on disposal of financial assets at fair value through profit or loss		–	(1,197)
Operating cash flows before changes in working capital		1,942	20,811
Changes in working capital:			
Inventories		(9)	(755)
Trade receivables		549	1,176
Deposits, prepayments and other receivables		5,145	(1,227)
Trade payables		(1,441)	(976)
Pledged bank deposits		(10,543)	–
Accruals, provisions and deposits received		(1,272)	(4,001)
Cash (used in)/generated from operations		(5,629)	15,028
Profits tax paid, net		(1,970)	(5)
Net cash (used in)/generated from operating activities		(7,599)	15,023
Investing activities			
Interest received		27	13
Purchases of property, plant and equipment		(367)	(849)
Proceeds from disposal of property, plant and equipment		21	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	7,900
Purchases of financial assets at fair value through profit or loss		–	(16,961)
Deposits paid for life insurance policies		(203)	(203)
Repayments from/(Advances to) related companies		310	(1,248)
Advances to the directors of subsidiaries		–	(1)
Repayment from a then shareholder of subsidiaries		–	(32)
Reinstatement costs paid for premises		(222)	–
Net cash used in investing activities		(434)	(11,381)

Six months ended 30 June

	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(audited)

Financing activities

Interest paid	(436)	(455)
Dividends paid	–	(3,200)
Net proceeds from bank borrowings	5,000	–
Repayments of bank borrowings	(2,603)	(3,410)
Repayments of finance lease obligations	(111)	(25)
Advances from/(Repayments to) directors	3,179	(28)
Repayments to related companies	(3,539)	(2,903)
Advances from the directors of subsidiaries	–	5
Advances from non-controlling shareholders	–	630
Advances from the then shareholders of subsidiaries	–	1,520
	1,490	(7,866)
Net cash generated from/(used in) financing activities		
	(6,543)	(4,224)
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of the period	28,060	23,908
Effect of foreign exchange rate changes	(216)	–
	21,301	19,684
Cash and cash equivalents at end of the period	21,301	19,684

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Chapter 18 to the GEM Listing Rules.

The condensed consolidated financial statements do not include all the information required for annual financial statements and thereby should be read in conjunction with the accountants’ report of the Group for the years ended 31 December 2013, 2014 and 2015 as set out in Appendix I to the prospectus issued by the Company on 24 June 2016 (the “Prospectus”) which have been prepared in accordance with accounting policies which conforms to Hong Kong Financial Reporting Standards.

The condensed consolidated financial statements 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 condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

3 PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the accountants’ report, except for the new standards, amendments and interpretations (“the New HKFRSs”) issued by the HKICPA that are adopted for the first time for the current financial statements. The adoption of the New HKFRSs had no material impact on the Group’s financial statements. The Group had not early adopted any new or revised standards or interpretations that have been issued but are not yet effective.

4 ESTIMATES

The preparation of condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimated.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the combined financial statements for the year ended 31 December 2015.

5 SEGMENT INFORMATION

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

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

The Group is principally engaged in the operation of 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. Accordingly, the Group has identified one operating segment – operation of Chinese restaurants and segment disclosures are not presented.

For the period ended 30 June 2016 and 2015, 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 2016 and 2015 and certain non-current assets information as at 30 June 2016 and 31 December 2015 by geographic area.

	Six months ended 30 June	
	2016	2015
	HK\$’000	HK\$’000
	(unaudited)	(audited)
Revenue from external customers		
Hong Kong	90,900	93,359
Mainland China	41,329	36,392
	132,229	129,751

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

	30 June	31 December
	2016	2015
	HK\$’000	HK\$’000
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	21,943	25,081
Mainland China	13,240	16,652
	35,183	41,733

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

6 REVENUE AND OTHER INCOME

Revenue from the operation of Chinese restaurants and other income during the periods ended 30 June 2016 and 2015 are as follows:

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Revenue		
Revenue from Chinese restaurant operations	<u>132,229</u>	<u>129,751</u>
Other income		
Rental income from investment properties	–	534
Interest income on short-term bank deposits	27	13
Dividend income	–	2
Interest income from deposits placed for life insurance policies	106	98
Forfeiture of deposits received	33	1
Miscellaneous income	<u>137</u>	<u>77</u>
	303	725
Total revenue and other income	<u><u>132,532</u></u>	<u><u>130,476</u></u>
Total interest income on financial assets not at fair value through profit or loss	<u><u>133</u></u>	<u><u>111</u></u>

7 OTHER EXPENSES

Other expenses include the following items:

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Auditors' remuneration	165	99
Operating lease expenses		
– Normal rent for premises	20,098	16,305
– Contingent rent for premises*	<u>2,019</u>	<u>2,295</u>

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

8 FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Interest expense on bank borrowings wholly repayable within five years	416	259
Interest expense on bank borrowings not wholly repayable within five years	–	192
Interest expense on finance lease obligations	20	4
	<u>436</u>	<u>455</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>436</u>	<u>455</u>

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Current income tax		
Current income tax on profits for the year		
– Hong Kong	922	2,551
– The PRC	708	–
Overprovided in prior year	–	(18)
	<u>1,630</u>	<u>2,533</u>
Deferred income tax		
Origination and reversal of temporary differences	(1,050)	38
	<u>580</u>	<u>2,571</u>

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 2015 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 2015 and 2016.

10 DIVIDENDS

Interim dividends of HK\$1,200,000 were declared and paid by a subsidiary of the Group before the completion of the Reorganisation to its then equity shareholders. The amount of dividend per share is not presented as the disclosure is not considered meaningful for the purpose of these condensed consolidated financial statements.

The Board of directors of the Company does not recommend payment of any dividend for the six months ended 30 June 2016.

11 (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(audited)
(Loss)/earnings		
(Loss)/profit for the period attributable to the owners of the Company	<u>(6,129)</u>	<u>9,395</u>
Number of shares		
Weighted average number of shares for the purpose of calculating basis (loss)/earnings per share	<u>602,198,000</u>	<u>600,000,000</u>

The number of shares 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 16 as if the shares had been in issue throughout the entire reporting periods.

The calculation of the weighted average number of shares outstanding has been adjusted for the effect of the placing of 200,000,000 new shares on 29 June 2016. As there were no dilutive potential ordinary shares during the periods, no diluted (loss)/earnings per share is presented.

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired at cost, property, plant and equipment of approximately HK\$367,000 (six months ended 30 June 2015: HK\$849,000).

13 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Rental deposits	15,546	18,103
Utility deposits	1,352	1,476
Other deposits	174	146
Prepayments	1,380	4,068
Other receivables (<i>note</i>)	<u>71,341</u>	<u>246</u>
	89,793	24,039
Less: Non-current portion – rental deposits	<u>15,546</u>	<u>15,649</u>
Current portion	<u>74,247</u>	<u>8,390</u>

Note: Included in other receivables was an amount of HK\$71,000,000 (2015:Nil) which represents the proceeds from issue and placing of shares due from the underwriter in connection with the listing of the Company's share on GEM. The amount was fully settled subsequently in July 2016.

14 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 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0 to 30 days	2,490	2,285
31 to 60 days	120	285
61 to 90 days	7	595
Over 90 days	83	115
	<u>2,700</u>	<u>3,280</u>

15 PLEDGED BANK DEPOSITS

Pledged bank deposits with maturity date over three months are pledged to a bank as security against the general banking facilities granted to the Group.

16 SHARE CAPITAL

	<i>Note</i>	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
		<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:			
As at 1 September 2015 (date of incorporation)	<i>(a)</i>	1	*
Issue of shares during reorganisation	<i>(b)</i>	9,999	*
Issue of shares by capitalisation of share premium account	<i>(c)</i>	599,990,000	6,000
Issue of shares upon placing	<i>(d)</i>	200,000,000	2,000
		<u>800,000,000</u>	<u>8,000</u>

* 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.

17 BANK BORROWINGS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Bank borrowings due for repayment within one year	16,680	10,233
Bank borrowings due for repayment after one year which contain a repayment on demand clause	<u>10,022</u>	<u>14,072</u>
	<u>26,702</u>	<u>24,305</u>

The bank loans were guaranteed by the Company together with an approximately RMB8,950,000 pledged bank deposits provided by the Group.

18 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 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	260	260
Later than 1 year and no later than 5 years	<u>607</u>	<u>738</u>
	867	998
Future finance charges on finance leases	<u>(65)</u>	<u>(85)</u>
	802	913
Present value of finance lease liabilities	<u>802</u>	<u>913</u>
The present value of finance lease liabilities is as follows:		
No later than 1 year	223	224
Later than 1 year and no later than 5 years	<u>579</u>	<u>689</u>
	<u>802</u>	<u>913</u>

As at 31 December 2015 and 30 June 2016, finance lease liabilities are secured by motor vehicles.

19 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.

20 CAPITAL COMMITMENTS

As at 30 June 2016 and 31 December 2015, the Group did not have any material capital expenditure contracted for or authorised but not contracted for.

21 TRADE PAYABLES

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0 to 30 days	6,420	6,611
31 to 60 days	815	2,079
61 to 90 days	23	187
Over 90 days	285	139
	<u>7,543</u>	<u>9,016</u>

22 OPERATING LEASE COMMITMENTS

The Group leases various restaurant properties and equipment under non-cancellable and optional operating lease agreements. The lease agreements are between 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 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
No later than 1 year	47,000	39,247
Later than 1 year and no later than 5 years	107,112	106,910
Later than 5 years	48,951	56,454
	<u>203,063</u>	<u>202,611</u>

23 RELATED PARTY TRANSACTIONS

(a) 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	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Purchases of goods from Ah Wong Frozen Meat(i)	–	8,210
Management fee paid to Bright Creator Limited (ii)	–	596
	<u>–</u>	<u>8,806</u>

Notes:

- (i) Ah Wong Frozen Meat was an unincorporated business enterprise controlled by the sister of the Chairman. Purchases of goods from the related company were carried out at a rate mutually agreed between the parties involved in the transactions. The terms of these transactions are no more favourable than those dealt with third parties.
- (ii) Bright Creator Limited was a Company controlled by the Chairman and his spouse. Management fee paid to the related company was charged at terms mutually agreed by both parties.

(b) Other arrangements with related parties

Banking facilities available to the Group included guarantees provided by the Ultimate Controlling Shareholders and their related companies, and Mr. Cheung Yuen Chau and Mr. David Chu who are the controlling shareholders of a non-controlling shareholder as at 31 December 2015.

Banking facilities available to the Group were also secured by the properties held by the former subsidiaries controlled by certain Ultimate Controlling Shareholders as at 31 December 2015.

At 31 December 2015, certain Company's subsidiaries and Harvest Express Development Limited have issued unlimited cross guarantee to a bank in respect of banking facilities granted to them.

All such guarantees and collaterals have been released as at 30 June 2016.

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 2016, 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 2015 under a new brand name of “Beijing House (京香閣)”. All of the Group’s restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations. The Group maintains a business philosophy of offering quality food and services at reasonable prices under an elegant and comfortable dining environment. All of the Group’s restaurants target at mid-to-high end spending customers.

As at 30 June 2016, 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 2016, the Group recorded a total revenue of approximately HK\$132.2 million, representing a slight increase of approximately 1.9% as compared to approximately HK\$129.8 million for the six months ended 30 June 2015.

Excluding (i) the revenue of the I-Square Restaurant which has ceased operation in November 2015 and contributed a revenue of approximately HK\$29.6 million to the Group for the six months ended 30 June 2015 (nil for the six months ended 30 June 2016); and (ii) the revenue of the Sheung Wan Restaurant and the Beijing House Restaurant which commenced operation since the end of October 2015 and contributed an aggregate revenue of approximately HK\$30.5 million to the Group for the six months ended 30 June 2016 (nil for the six months ended 30 June 2015), the Group’s revenue would be approximately HK\$100.2 million and HK\$101.7 million for the six months ended 30 June 2015 and 2016, respectively, representing revenue contributed from those restaurants which were existed throughout both of the six-month periods ended 30 June 2015 and 2016, respectively. Such revenue amount comprised the aggregate revenue of the three restaurants in Hong Kong (i.e. the CWB Restaurant, The One Restaurant and the Olympian Restaurant) of approximately HK\$60.4 million for the six months ended 30 June 2016 (2015: approximately HK\$63.8 million) and the revenue of the Shenzhen Restaurant of approximately HK\$41.3 million for the six months ended 30 June 2016 (2015: approximately HK\$36.4 million).

The decrease in the aggregate revenue of the CWB Restaurant, The One Restaurant and the Olympian Restaurant by approximately 5.3% for the six months ended 30 June 2016 as compared to the corresponding period in 2015 was mainly due to the economic downturn of Hong Kong which affected consumers' consumption sentiment. On the other hand, the increase in revenue of the Shenzhen Restaurant by approximately 13.5% over the Period was mainly due to steady 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\$92.4 million for the six months ended 30 June 2016, representing a decline of approximately 1.7% from approximately HK\$94.0 million for the six months ended 30 June 2015, which was mainly due to the cost inflation of vegetables and frozen foods purchased by the Shenzhen Restaurant in the PRC. As a result, the Group's overall gross profit margin decreased from approximately 72.4% for the six months ended 30 June 2015 to approximately 69.9% for the six months ended 30 June 2016.

Employee benefits expenses

Employee benefit expenses was approximately HK\$32.3 million for the six months ended 30 June 2016 (2015: approximately HK\$27.4 million), representing an increase of approximately 18.2% as compared to the corresponding period in 2015. Such increase was mainly due to the larger aggregate floor area of the Sheung Wan Restaurant and the Beijing House (which was relevant for the six months ended 30 June 2016) as compared with that of the I-Square Restaurant (which was relevant for the six months ended 30 June 2015), as a result of which, the Group was required to hire relatively more operational staff during the six months ended 30 June 2016 as compared to the corresponding period in 2015 in order to keep comparable service standard. Going forward, the Group will closely monitor the cost control in respect of staff salaries, and at the same time regularly review the work allocation of the staff in order to improve the work efficiency and maintain a quality standard of service.

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 2016, other expenses amounted to approximately HK\$51.0 million, representing an increase of approximately 9.5% as compared to the corresponding period in 2015, which was mainly due to the increase in rental cost of restaurant premises.

Loss attributable to owners of the Company

For the six months ended 30 June 2016, the Group incurred a loss attributable to owners of the Company of approximately HK\$6.1 million, while it was a profit attributable to owners of the Company of approximately HK\$9.4 million for the corresponding period in 2015. The turnaround from net profit to net loss was mainly due to the following reasons: (i) the I-Square Restaurant, which was closed in November 2015 and contributed an operating profit of approximately HK\$7.0 million to the Group during the six months ended 30 June 2015, did not have profit contribution to the Group for the six months ended 30 June 2016; (ii) the Sheung Wan Restaurant and the Beijing House Restaurant, which were opened at the end of October 2015, were yet to be profitable and incurred an operating loss of approximately HK\$2.6 million during the six months ended 30 June 2016; and (iii) the incurring of listing expenses of approximately HK\$7.6 million during the six month ended 30 June 2016. Moreover, the decrease in the Group's gross profit margin due to cost inflation during the six month ended 30 June 2016 also caused the decrease in operating profit as compared to the corresponding period in 2015.

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 2016, was to lower the gearing ratio to an acceptable level.

As at 30 June 2016, the Group's cash and cash equivalents were approximately HK\$21.3 million, representing a decrease of approximately 24.1% as compared with approximately HK\$28.1 million as at 31 December 2015. The decrease was mainly due to the pledge of bank deposits of approximately HK\$10.5 million for banking facilities during the six months ended 30 June 2016.

As at 30 June 2016, cash and cash equivalents and restricted bank deposits of approximately HK\$31.8 million included HK\$7.9 million and HK\$23.9 million which were denominated in Hong Kong dollars and Renminbi, respectively.

Indebtedness and Banking Facilities

As at 30 June 2016, the Group had bank borrowings of approximately HK\$26.7 million, which were all denominated in Hong Kong dollars and bore the interest rate ranging from approximately 2.5% to 3.7% per annum. As at 30 June 2016, the Group had bank borrowings of approximately HK\$5.0 million which was secured by pledged bank deposits of approximately HK\$10.5 million.

As at 30 June 2016, the Group's gearing ratio was approximately 26.7%, which is calculated based on the interest-bearing debt divided by total equity attributable to owners of the Company as at 30 June 2016 and multiplied by 100%. The Directors, taking into account of the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 30 June 2016 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 is insignificant. 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 2016, there were 800,000,000 ordinary shares in issue. Save for the issue of shares during reorganisation and capitalisation of shares and upon the Placing as detailed in Note 16 to the condensed consolidated financial statements of this announcement, there was no other movement in the issued share capital of the Company during the six months ended 30 June 2016.

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

Apart from the Reorganisation as disclosed in the Prospectus, there were no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2016.

Save for the business plan as disclosed in this announcement, there is no plan for material investment or capital assets as at 30 June 2016.

Commitments

As at 30 June 2016, the Group had no significant outstanding contracted capital commitments.

Charge on Assets

As at 30 June 2016, the Group pledged its bank deposits of approximately HK\$10.5 million as securities for the Group's bank borrowings of HK\$5.0 million. Save as disclosed above, the Group did not have any charge over assets.

Contingent Liabilities

As at 30 June 2016, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had 353 (30 June 2015: 351) employees as at 30 June 2016. The staff costs, including Directors' emoluments, of the Group were approximately HK\$32.3 million and HK\$27.4 million for the six months ended 30 June 2016 and 2015, respectively.

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 2016, 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 2016 (six months ended 30 June 2015: 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.

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

The operations of Group's restaurants opened at the end of October 2015 are expected to be gradually put on track since their opening. Although the revenues from these restaurants lowered in the second quarter March and April of 2016, the Directors consider that such performance was due to the commencement of traditional low season of Chinese restaurant industry in Hong Kong.

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.

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. The net proceeds received from the Placing will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

Directors’ and Controlling Shareholders’ Interests in Competing Business

Save as disclosed in the Prospectus, for the six months ended 30 June 2016, each of the Directors, the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

Corporate Governance

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company has complied with the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules throughout the six months ended 30 June 2016. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the six months ended 30 June 2016, except for certain deviations as specified with considered reasons for such deviations as explained below.

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

During the six months ended 30 June 2016 under review, the Company has not separated the roles of chairman and chief executive officer of the Company. Mr. Chan Chun Kit (“**Mr. Chan**”) was the chairman and also the chief executive officer of the Company responsible for overseeing the operations of the Group during such period. In view of the fact that Mr. Chan has been operating and managing the Group since 1998, the Board believes that it is in the best interests of the Group to have Mr. Chan taking up both roles for effective management and business development. The Board also believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although Mr. Chan performs both roles of chairman and chief executive officer, the division of responsibilities between the two roles is clearly established. While the chairman is responsible for supervising the functions and performance of the Board, the chief executive officer is responsible for the management of the Group’s business. The Board considers that the balance of power and authority for the present arrangement will not be impaired given the appropriate delegation of the power of the Board to the Senior Management for the day-to-day management of the Group, and the effective functions of the independent non-executive Directors representing at least one-third of the Board such that no one individual has unfettered power of decisions. This structure will also enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Directors' Securities Transactions

The Group had adopted Rules 5.48 to Rules 5.67 of the GEM Listing Rules (the “**Model Code**”) as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry with all the Directors, all the Directors had confirmed compliance with the required standard of dealings and the code of conduct for Directors' securities transactions as set out in the Model Code during the six months ended 30 June 2016.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2016.

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 2016 and there were no outstanding share options under the Share Option Scheme as at 30 June 2016.

Interests of the Compliance Adviser

As at 30 June 2016, as notified by the Company's compliance adviser, Ample Capital Limited (“**ACL**”), except for the compliance adviser agreement entered into between the Company and ACL dated 20 June 2016, neither ACL nor its directors, employees or close associates had any interests in the securities of 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 2016 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, 11 August 2016

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 "Latest Company Announcements" page on the Growth Enterprise Market website at www.hkgem.com for at least 7 days from the date of its posting and will also be published on the Company's website at <http://www.starofcanton.com.hk>.