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利·寶·閣

Li Bao Ge Group Limited
利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022 (the "**Period**") together with the comparative figures for the corresponding period in 2021 (the "**Previous Period**") as set out below. This interim results announcement has been reviewed by the audit committee under the Board (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

For the Period, the Group's operating results were as follows:

– revenue of the Group amounted to approximately HK$74.9 million, representing a decrease of approximately 44.2% as compared with the Previous Period.

– loss attributable to owners of the Company amounted to approximately HK$26.0 million, representing an increase in loss by approximately HK$0.6 million as compared with a loss attributable to owners of the Company of approximately HK$25.4 million for the Previous Period.

– loss per share was approximately HK2.60 cents.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**74,857**	134,118
Other income	*4*	**2,221**	6,357
Cost of materials consumed		**(27,516)**	(57,170)
Employee benefits expense		**(26,467)**	(40,382)
Depreciation	*5*	**(23,996)**	(29,932)
Other expenses	*5*	**(18,230)**	(33,217)
Operating loss		**(19,131)**	(20,226)
Impairment loss on property, plant and equipment		**(1,999)**	–
Impairment loss on right-of-use assets		**(502)**	–
Finance costs	*6*	**(4,324)**	(6,026)
Loss before income tax		**(25,956)**	(26,252)
Income tax expense	*7*	**(261)**	(698)
Loss for the period		**(26,217)**	(26,950)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		**830**	815
Total comprehensive expense for the period		**(25,387)**	(26,135)
Loss attributable to:			
Owners of the Company		**(25,982)**	(25,396)
Non-controlling interests		**(235)**	(1,554)
		(26,217)	(26,950)
Total comprehensive expense attributable to:			
Owners of the Company		**(25,215)**	(24,597)
Non-controlling interests		**(172)**	(1,538)
		(25,387)	(26,135)
		HK cent	HK cent
Basic loss per share	*9*	**(2.60)**	(2.54)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	**30 June 2022 HK$'000 (unaudited)**	31 December 2021 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**33,339**	44,629
Right-of-use assets		**67,766**	85,769
Rental deposits		**12,464**	12,773
Deposits placed for a life insurance policy		**–**	2,247
		113,569	145,418
Current assets			
Inventories		**12,435**	13,893
Trade receivables	*10*	**1,788**	2,302
Deposits, prepayments and other receivables		**9,491**	10,250
Loan receivable		**3,640**	3,706
Current tax recoverable		**37**	42
Amounts due from related companies		**7**	9
Pledged bank deposit		**1,600**	4,076
Cash and cash equivalents		**22,255**	26,817
		51,253	61,095
Total assets		**164,822**	206,513
EQUITY			
Equity attributable to owners of the Company			
Share capital	*11*	**10,000**	10,000
Reserves		**(70,533)**	(45,318)
		(60,533)	(35,318)
Non-controlling interests		**(3,854)**	(3,682)
Total deficits		**(64,387)**	(39,000)

	Notes	**30 June 2022** *HK$'000* **(unaudited)**	31 December 2021 *HK$'000* (audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**83,489**	102,999
Provision for reinstatement costs		**3,788**	3,833
Deferred tax liabilities		**535**	279
		87,812	107,111
Current liabilities			
Trade payables	*13*	**15,470**	16,646
Accruals, provisions and deposits received		**36,803**	32,443
Amount due to a non-controlling shareholder		**710**	723
Amounts due to related companies		**924**	307
Contract liabilities		**17,710**	23,451
Bank borrowings	*12*	**22,311**	24,724
Lease liabilities		**45,529**	38,168
Current tax payable		**28**	28
Provision for reinstatement costs		**1,912**	1,912
		141,397	138,402
Total liabilities		**229,209**	245,513
Total deficits and liabilities		**164,822**	206,513
Net current liabilities		**90,144**	77,307

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 and principal place of business in Hong Kong are Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and Room B, 5/F, On Fat Industrial Building, 12–18 Kwai Wing Road, Kwai Chung, New Territories, Hong Kong, respectively. The Company is 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 ("**China**" or the "**PRC**").

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements do not include all the information required for annual financial statements and thereby should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2021 ("**2021 Annual Report**") which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). The Group's policies on financial risk management were set out in the financial statements included in the Company's 2021 Annual Report and there have been no significant changes in the financial risk management policies for the Period.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("**HK$**") which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

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

During the Period, the Group recorded a consolidated net loss of approximately HK$25,387,000 and, as of that date, the Group had net liabilities of approximately HK$64,387,000 and its current liabilities exceeded its current assets by approximately HK$90,144,000.

Notwithstanding the above results, the unaudited condensed 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 had interest-bearing bank borrowings of approximately HK$22,311,000 as at 30 June 2022, of which approximately HK$3.155,000 is repayable within one year. The remaining interest-bearing bank borrowings, amounting to approximately HK$19,156,000 were classified as current liabilities due to the existence of a repayment on demand clause in the loan agreements. The Group will actively negotiate with the bank for the renewal of the Group's bank borrowings when they fall due in order to secure necessary funds to meet the Group's working capital and financial requirements in the foreseeable future. In the opinion of the Directors, the Group will be able to roll over or refinance the bank borrowings upon their maturity;

(ii) the Group is actively negotiating with banks to obtain additional funds to finance the Group's working capital and improve the liquidity positions; and

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

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 unaudited condensed 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 unaudited condensed consolidated financial statements.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the Period are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

(A) New and amended standards adopted by the Group

The Hong Kong Institute of Certified Public Accountants has issued a number of new HKFRSs and amendments to HKFRSs, which are effective for accounting periods beginning on or after 1 January 2022. The Group has adopted the following new and revised standards for the first time for the current period's condensed consolidated financial statements.

Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2018–2020
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract

The adoption of these amendments to standards does not have any significant effect on the results and financial position of the Group.

3 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the chief executive officer of the Company who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

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

The Group is principally engaged in the operation of food catering services through a chain of Chinese restaurants, as well as a non-Chinese cuisine restaurant. 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 Previous Period and the Period, 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 Previous Period and the Period.

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from external customers		
Hong Kong	**18,021**	27,114
Mainland China	**56,836**	107,004
	74,857	134,118

4 REVENUE AND OTHER INCOME

Revenue and other income during the Previous Period and the Period are as follows:

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from customers and recognised at point in time		
Revenue from Chinese restaurant operations	**71,939**	112,707
Revenue from Thai Cuisine restaurant operations	**2,900**	4,130
Revenue from cooperation with Freshippo	**18**	14,961
Revenue from sale of food ingredients	**–**	2,320
	74,857	134,118
Other income		
Interest income on short-term bank deposits	**93**	26
Interest income from deposits placed for a life insurance policy	**–**	61
Loan interest income	**–**	300
Reversal of provision for reinstatement cost	**–**	203
Government grants	**1,936**	2,214
Government subsidies	**–**	3,174
Miscellaneous income	**192**	379
	2,221	6,357
Total revenue and other income	**77,078**	140,475
Total interest income on financial assets measured at amortised cost	**93**	387

Disaggregation of revenue from contracts with customers by geographic market is disclosed in Note 3.

5 DEPRECIATION AND OTHER EXPENSES

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation		
– property, plant and equipment	**7,870**	9,787
– right-of-use assets	**16,126**	20,145
	23,996	29,932

	Six months ended 30 June	
Other expenses include the following items:		
Auditors' remuneration		
– audit services	**361**	274
– non audit services	**90**	90
Amortisation on intangible assets	**–**	933
Operating lease payments of premises		
– Contingent rent for premises	**–**	555
– COVID-19 rent concessions	**(3,474)**	(997)
– Variable lease payment	**–**	713
Lease payment not included in the measurement of lease liabilities	**1,968**	1,826
Impairment loss on trade receivables, net	**7**	1
Property, plant and equipment written-off	**516**	2,936

6 FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest expense on bank borrowings	**319**	280
Interest expense on lease liabilities	**4,005**	5,746
Total interest expenses on financial liabilities not at fair value through profit or loss	**4,324**	6,026

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
Current tax on profits for the period		
– The PRC	**–**	362
Deferred tax		
Origination and reversal of temporary differences	**261**	336
Income tax expense	**261**	698

No provision for Hong Kong profits tax is made in the unaudited condensed consolidated financial statements as the Group has no assessable profits derived in Hong Kong for the Previous Period and the Period.

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 the subsidiaries of the Group, the other PRC subsidiaries are subject to income tax at the rate of 25% for the Previous Period and the Period.

8 DIVIDEND

The Board has resolved not to declare the payment of any dividend for the Period (Previous Period: nil).

9 LOSS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to the owners of the Company	**(25,982)**	(25,396)

	2022	2021
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of calculating basic loss per share	**1,000,000**	1,000,000

The diluted loss per share is equal to basic loss per share as there was no potential dilutive ordinary shares outstanding during the Previous Period and the Period.

10 TRADE RECEIVABLES

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**2,020**	2,536
Less: allowance for impairment losses	**(232)**	(234)
	1,788	2,302

The Group's sales from its restaurant operations are mainly conducted in cash or by credit cards. The credit period granted by the Group to its customers ranges from 0 to 30 days. The ageing analysis of trade receivables, based on invoice date, (net of allowance for impairment losses) is as follows:

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**1,259**	1,805
31 to 60 days	**176**	207
61 to 90 days	**38**	52
Over 90 days	**315**	238
	1,788	2,302

11 SHARE CAPITAL

	Number of Ordinary shares	**Nominal value of Ordinary share**
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each as at 31 December 2021 (audited) and 30 June 2022 (unaudited)	2,000,000,000	20,000
Issued and fully paid:		
As at 31 December 2021 (audited) and 30 June 2022 (unaudited)	1,000,000,000	10,000

12 BANK BORROWINGS

	30 June 2022 *HK$'000* **(unaudited)**	31 December 2021 *HK$'000* (audited)
Bank overdraft – unsecured	**–**	1,102
Bank borrowings due for repayment within one year (unsecured)	**3,155**	2,855
Bank borrowings due for repayment after one year which contain a repayment on demand clause (unsecured)	**19,156**	20,767
	22,311	24,724

13 TRADE PAYABLES

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

	30 June 2022 *HK$'000* **(unaudited)**	31 December 2021 *HK$'000* (audited)
0 to 30 days	**9,171**	6,943
31 to 60 days	**962**	3,443
61 to 90 days	**1,212**	1,256
Over 90 days	**4,125**	5,004
	15,470	16,646

BUSINESS AND OPERATIONAL REVIEW

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

For the Period, the Group operated three full-service Chinese restaurants in Hong Kong under the brand name of "Star of Canton (利寶閣), a Thai cuisine restaurant in Hong Kong, under the brand name of "La Maison D' Elephant (象屋)" (the "**Thai (Mongkok) Restaurant**"), in a shopping mall in Mongkok district, and three full service restaurants in Shenzhen, the PRC, under the brand name of "Star of Canton (利寶閣)". The Chinese restaurants in Hong Kong under the brand name of "Star of Canton (利寶閣)" in Causeway Bay (the "**CWB Restaurant**") and Tsim Sha Tsui ("**The One Restaurant**") were closed on 31 May 2022 and 19 May 2022, respectively. Due to unsatisfactory customer visit and unfavourable market conditions amid the government restriction measures on public gatherings which have been considerably affecting the catering industry, and the expiration of the lease term on 31 May 2022, the Group decided not to renew the lease and ceased the operation of the CWB Restaurant. For similar reasons, i.e. unsatisfactory customer visit and unfavourable market conditions and that the Group was unable to obtain favourable lease terms from the landlord, the Group ceased the operation of The One Restaurant. For details, please refer to the Company's announcement titled "**Inside Information – Business Update**" dated 14 June 2022. 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, the Group has in place active costs 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.

As at 30 June 2022, the Group had,

in Hong Kong:

(i) one Chinese restaurant which was located in Olympian City (i.e. the Olympian Restaurant);

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

in Shenzhen, the PRC:

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

Due to the impact of novel coronavirus disease 2019 pandemic (the "**COVID-19**" or the "**Pandemic**"), the expansion plan has been delayed.

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded a total revenue of approximately HK$74.9 million, representing a decrease of approximately 44.2% as compared to approximately HK$134.1 million for the Previous Period.

The Group's total revenue for the Period mainly comprised: (1) the aggregate revenue of the six Chinese restaurants in Hong Kong and Shenzhen of approximately HK$71.9 million (Previous Period: approximately HK$112.7 million); (2) the revenue of the Thai (Mongkok) Restaurant of approximately HK$2.9 million (Previous Period: approximately HK$4.1 million); (3) the revenue from cooperation with Freshippo of approximately HK$18,000 (Previous Period: approximately HK$15.0 million); and (4) no revenue from the sales of food ingredients (Previous Period: HK$2.3 million).

The revenue from external customers in Hong Kong was approximately HK$18.0 million for the Period, decreased by approximately 33.5% as compared to the Previous Period. The Directors consider such decrease in revenue in Hong Kong was due to the closure of Kwun Tong Restaurant (in November 2021), CWB Restaurant (in May 2022) and The One Restaurant (in May 2022). In addition, the 5th wave of the COVID-19, the accelerated downtrend of the Hong Kong economy and severe government restriction measures on public gatherings also contributed to the reduction of revenue during the Period.

The revenue from external customers in China for the Period decreased by approximately 46.9% as compared to the Previous Period. The Directors consider such decrease in revenue in China was mainly due to, among others, severe government restriction measures on public gatherings and temporary lockdown under the government compulsory policy. Operations of two of our restaurants located in epidemic areas in China were temporarily suspended which caused serious impacts on our business. Besides, the severe Pandemic from surrounding cities and regions also affected the consumer spending confidence level in Shenzhen during the Period.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$47.3 million for the Period, representing a decrease of approximately 38.5% from approximately HK$76.9 million for the Previous Period, which was in line with the decrease in revenue during the Period. Nevertheless, the Group's overall gross profit margin increased from approximately 57.4% for the Previous Period to approximately 63.2% for the Period. Such increase was mainly due to the cessation of the low gross profit margin operations for the Period including Kwun Tong Restaurant in Hong Kong and all food counters in China.

Employee benefits expense

Employee benefits expense was approximately HK$26.5 million for the Period (Previous Period: approximately HK$40.4 million), representing a decrease of approximately 34.5% as compared to the Previous Period, which was in line with the decrease in revenue during the Period. With the Group's staff cost control measures, the employee benefits expense of its restaurant staff maintained at a stable level in terms of percentage of revenue as compared to the Previous Period. Going forward, the Group will continue to 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.

Depreciation

Depreciation for the Period in respect of right-of-use assets in relation to the Group's leased properties was approximately HK$16.1 million (Previous Period: HK$20.1 million).

Other expenses

Other expenses mainly include, but not limited to, expenses incurred for the Group's restaurant operation, consisting of building management fee and air conditioning charges, cleaning and laundry expenses, utility expenses, service fees paid to temporary workers, advertising and promotion. For the Period, other expenses amounted to approximately HK$18.2 million (Previous Period: approximately HK$33.2 million), representing decrease of approximately HK$15.0 million or 45.1% which was mainly due to the combined effects of cost control, increase of COVID-19 rent concessions and decrease in revenue.

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

For the Period, the impairment loss on property, plant and equipment amounted to approximately HK$2.0 million (Previous Period: Nil) and the impairment loss on right-of-use assets amounted to approximately HK$0.5 million (Previous Period: Nil). Both due to the Thai (Mongkok) Restaurant continued to incur losses.

Finance costs

Finance costs for the Period included approximately HK$4.0 million (Previous Period: HK$5.7 million) in respect of interest expense on lease liabilities in relation to the Group's leased properties.

Loss attributable to owners of the Company

For the Period, the Group recorded a loss attributable to owners of the Company of approximately HK$26.0 million, whereas the Group recorded a loss attributable to owners of the Company of approximately HK$25.4 million for the Previous Period. Such loss-making position for the Period, representing increase in net loss attributable to owners of the Company by approximately HK$0.6 million as compared to the Previous Period, was mainly due to the effect of significant negative impact on Group's business by the Pandemic.

Liquidity, financial resources and capital structure

Capital Structure

The Group's objectives in managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to its shareholders, return capital to its shareholders, issue new shares or sell assets to reduce debt.

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

As at 30 June 2022, the Group's cash and bank balances were approximately HK$22.3 million, representing a decrease of approximately HK$4.6 million as compared with approximately HK$26.8 million as at 31 December 2021. The decrease was mainly due to increase in cash flow used in operation during the Period.

As at 30 June 2022, cash and bank balances of approximately HK$22.3 million included HK$7.2 million and HK$15.1 million which were denominated in Hong Kong dollars and Renminbi, respectively.

Indebtedness and Banking Facilities

As at 30 June 2022, the Group had bank borrowings of approximately HK$22.3 million, bearing interest rates at 2.75% per annum and were guaranteed by The Hong Kong Special Administrative Region (the "**HKSAR**").

Foreign Exchange Exposure

Most of the income and expenditures of the Group are denominated in HK$ and RMB, which are the functional currencies of the respective group entities. Even HK$ is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the Period. 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 2022, there were 1,000,000,000 ordinary shares in issue. There was no movement in the issued share capital of the Company during the Period.

Commitments

As at 30 June 2022, the Group had no significant outstanding contracted capital commitments.

Charge on Assets

As at 30 June 2022, the balance of approximately HK$1.6 million (31 December 2021: HK$4.1 million) which was carried at the prevailing market interest rate at 0.1% per annum) represents deposit pledged at a bank to secure general banking facilities granted to the Group, and therefore classified as current assets. The pledged bank deposit was denominated in HK$.

Save as disclosed above, the Group did not have any charge over its assets as at 30 June 2022.

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 the HKSAR (the "**Court Action**") by Foxhill Investments Limited as plaintiff against Excel Linker (Hong Kong) Limited as defendant. For details, please refer to the announcement tilted "Inside Information – Litigation" dated 6 January 2020. A provision of HK$7.6 million has been made in the unaudited condensed consolidated financial statements for the Period (31 December 2021: HK$6.0 million). The Company is currently seeking legal advice in respect of the foregoing. 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 hearing in relation to the Court Action has been scheduled.

Saved as disclosed above, as at 30 June 2022, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 512 employees as at 30 June 2022. The staff head count decreased as compared to 2021 which was mainly due to cessation of operation of Kwun Tong Restaurant in November 2021, CWB Restaurant and The One Restaurant in Hong Kong during the Period. The employee benefits expense, including Directors' emoluments, of the Group was approximately HK$26.5 million and HK$40.4 million for the Period and the Previous Period, respectively. The remuneration policy of the Group is based on merit, performance and individual competence.

The Directors and the senior management of the Company (the "**Senior Management**") receive compensation in the form of salaries and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group regularly reviews and determines the remuneration and compensation package of the Directors and the Senior Management by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the Senior Management and the performance of the Group.

The remuneration committee of the Board reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the share option scheme adopted by the Company on 16 June 2016. During the Period, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Directors has resolved not to declare any payment of dividend for the Period (Previous Period: nil).

Prospects

Due to the uncertainties of the Hong Kong and China economies and the widely spread of the Pandemic in Hong Kong and China since January 2020 which seriously affected the catering industry and is expected to continue throughout 2022, the Directors anticipate that the Group's business will face various challenges in the foreseeable future. The Group's key risk exposures and uncertainties are summarised as follows:

(i) the Group's future success relies heavily on its ability to constantly offer menu items, creatively-designed banquet and dining services based on changing market trends and changing tastes, dietary habits, expectations and other preferences of the Group's target customers. As such, significant costs to survey and research customer trends and preferences and to develop and market new menu items, banquet and dining services may be required, this may place substantial burden on the Group's managerial and financial resources;

(ii) the operation of the Group may be affected by the price of the food ingredients, especially the price of the imported food ingredients which will be affected by the fluctuating exchange rate;

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

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

(v) the resurgence of the COVID-19 of Hong Kong and China since February 2022, which may become serious and adversely affect the Group's restaurant operations in the year to come.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

Nonetheless, the management is optimistic that (i) the Pandemic will be stabilized by the end of 2022 and created conditions for reopening the borders between Hong Kong and China; and (ii) the Group can succeed and enhance the shareholders' value in the medium to long run, based on the years of experience of the Senior Management in managing Chinese restaurant business in Hong Kong and China and its business strategies as detailed below.

The Group is confidence that Hong Kong economy will gradually recover by the end of 2022 which may also improve the consumer confidence level in Hong Kong. The reopening of the borders between Hong Kong and China will help to accelerate the recovery rate of economic activities in Hong Kong to pre-pandemic levels.

The Group entered into some of the lease agreements during 2019 when the rental rate was at the peak in the Hong Kong market. Given the closure of the three restaurants in Hong Kong in 2021 and during the Period, the Group has removed the high rental based operations in order to avoid further loss and make available working capital for other operation needs of the Group. Hence, the Group will be able to structure new commercially acceptable lease agreements for future expansion.

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 addition, the Group will continue to develop the online shopping platform for Star Of Canton by putting more effort on promotion and marketing to serve its customers.

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.

Event after the reporting period

On 17 January 2022, the People's Court of Pudong New District of Shanghai* (上海市浦東新區人民法院) has accepted a civil action filed by two non-controlling shareholders (one of them is a legal representative) of a non-wholly owned subsidiary in the PRC, 上海志捷食品有限公司, regarding the request to liquidate the non-wholly owned subsidiary. The court hearing of the above legal action has been rescheduled to 12 October 2022. Based on the legal advice from the Group's PRC legal advisor, the Board is of the view that the Group has valid grounds to oppose the liquidation of the subject non-wholly owned subsidiary as requested by the non-controlling shareholders and that the above legal action will not have any material adverse impact on the business and/or operations of the Group.

Saved as disclosed above, the Board is not aware of any important event affecting the Group after the Period and up to the date of this announcement.

* *For identification purpose only*

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**Code**") in Appendix 14 of the Listing Rules. For the Period, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the Code, except for certain deviations as specified with considered reasons for such deviations as explained below.

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

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

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "**Code of Conduct**"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the Period.

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

Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the Period.

The Company did not redeem any of its listed securities during the Period.

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 Period and there were no outstanding share options under the Share Option Scheme as at 30 June 2022.

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 Corporate Governance Code set out in Appendix 14 to the Listing Rules. 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. Lee Cheung Yuet Horace and the other two members are Mr. Kan Sze King Kenneth and Mr. Chan Ming Kei.

The unaudited interim financial results of the Group for the Period have been reviewed by the Audit Committee.

By Order of the Board
LI BAO GE GROUP LIMITED
Chan Chun Kit
Chairman and Executive Director

Hong Kong, 30 August 2022

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