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 2020

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 2020 (the "**Period**") together with the comparative figures for the corresponding period in 2019 as set out below. This interim results announcement has been reviewed by the audit committee under the Board (the "**Audit Committee**"). Unless otherwise specified, terms used herein shall have the same meanings as those defined in the Company's announcement dated 28 August 2018 regarding the transfer of listing from GEM to Main Board and the Company's prospectus dated 24 June 2016 (the "**Prospectus**").

## FINANCIAL HIGHLIGHTS

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

– revenue of the Group amounted to approximately HK$91.5 million, representing a decrease of approximately 48.8% as compared with the corresponding period in 2019.

– loss attributable to owners of the Company amounted to approximately HK$23.6 million, representing an increase in loss by approximately HK$14.2 million as compared with a loss attributable to owners of the Company of approximately HK$9.4 million for the corresponding period in 2019.

– loss per share was approximately HK2.36 cents.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 June 2020*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2020** | 2019 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| Revenue | *4* | **91,477** | 178,792 |
| Other income | *4* | **6,799** | 380 |
| Cost of materials consumed | | **(34,148)** | (61,668) |
| Employee benefits expense | | **(27,791)** | (47,558) |
| Depreciation | *5* | **(30,307)** | (27,416) |
| Other expenses | *5* | **(22,389)** | (45,648) |
| **Operating loss** | | **(16,359)** | (3,118) |
| Finance costs | *6* | **(6,803)** | (4,868) |
| **Loss before income tax** | | **(23,162)** | (7,986) |
| Income tax expense | *7* | **(480)** | (1,461) |
| **Loss for the period attributable to owners of the Company** | | **(23,642)** | (9,447) |
| Other comprehensive expense | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising from translation of financial statements of foreign operations | | **(1,269)** | (99) |
| **Total comprehensive loss for the period attributable to owners of the Company** | | **(24,911)** | (9,546) |
| | | **HK cent** | HK cent (Restated) |
| Basis loss per share | *9* | **(2.36)** | (1.17) |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 June 2020*

| | Notes | 30 June 2020 HK$'000 (unaudited) | 31 December 2019 HK$'000 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *10* | **62,304** | 70,282 |
| Right-of-use assets | *11* | **147,058** | 167,961 |
| Rental deposits | *12* | **14,770** | 14,948 |
| Deposits placed for a life insurance policy | | **2,145** | 2,115 |
| Deposit paid for acquisition of a subsidiary | *13* | **19,613** | – |
| Deferred tax assets | | **647** | 1,144 |
| | | **246,537** | 256,450 |
| **Current assets** | | | |
| Inventories | | **10,633** | 13,968 |
| Trade receivables | *14* | **3,790** | 3,844 |
| Deposits, prepayments and other receivables | *12* | **17,104** | 16,943 |
| Current tax recoverable | | **787** | 1,287 |
| Pledged bank deposits | *15* | **4,071** | 11,029 |
| Cash and cash equivalents | | **36,744** | 71,151 |
| | | **73,129** | 118,222 |
| **Total assets** | | **319,666** | 374,672 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *16* | **10,000** | 10,000 |
| Reserves | | **57,888** | 82,799 |
| **Total equity** | | **67,888** | 92,799 |

| | Notes | **30 June 2020 HK$'000 (unaudited)** | 31 December 2019 HK$'000 (audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | *18* | **123,542** | 141,598 |
| Provision for reinstatement costs | *19* | **4,660** | 4,743 |
| | | **128,202** | 146,341 |
| **Current liabilities** | | | |
| Trade payables | *22* | **13,178** | 16,350 |
| Accruals, provisions and deposits received | | **22,953** | 26,026 |
| Contract liabilities | | **15,108** | 16,590 |
| Bank borrowings | *17* | **–** | 7,444 |
| Lease liabilities | *18* | **71,025** | 67,267 |
| Current tax payable | | **–** | 543 |
| Provision for reinstatement costs | | **1,312** | 1,312 |
| | | **123,576** | 135,532 |
| **Total liabilities** | | **251,778** | 281,873 |
| **Total equity and liabilities** | | **319,666** | 374,672 |
| **Net current liabilities** | | **(50,447)** | (17,310) |

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*For the six months ended 30 June 2020*

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Other reserves** | **Exchange translation reserve** | **Retained profits/ (Accumulated losses)** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Balance as at 1 January 2019 (audited)** | 8,000 | 55,134 | 42,396 | (4,191) | 9,351 | 110,690 |
| Loss for the period | – | – | – | – | (9,447) | (9,447) |
| Currency translation differences | – | – | – | (99) | – | (99) |
| Total comprehensive income for the period | – | – | – | (99) | (9,447) | (9,546) |
| Dividend paid | – | – | – | – | (4,000) | (4,000) |
| **Balance as at 30 June 2019 (unaudited)** | 8,000 | 55,134 | 42,396 | (4,290) | (4,096) | 97,144 |
| **Balance as at 1 July 2019 (unaudited)** | 8,000 | 55,134 | 42,396 | (4,290) | (4,096) | 97,144 |
| Loss for the period | – | – | – | – | (49,894) | (49,894) |
| Currency translation differences | – | – | – | (201) | – | (201) |
| Total comprehensive expense for the period | – | – | – | (201) | (49,894) | (50,095) |
| Issue of new shares under rights issue, net | 2,000 | 43,750 | – | – | – | 45,750 |
| **Balance as at 31 December 2019 (audited)** | 10,000 | 98,884 | 42,396 | (4,491) | (53,990) | 92,799 |
| **Balance as at 1 January 2020 (audited)** | 10,000 | 98,884 | 42,396 | (4,491) | (53,990) | 92,799 |
| Loss for the period | – | – | – | – | (23,642) | (23,642) |
| Currency translation differences | – | – | – | (1,269) | – | (1,269) |
| Total comprehensive expense for the period | – | – | – | (1,269) | (23,642) | (24,911) |
| **Balance as at 30 June 2020 (unaudited)** | 10,000 | 98,884 | 42,396 | (5,760) | (77,632) | 67,888 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2020*

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Net cash generated from operating activities** | **11,832** | 18,200 |
| **Net cash used in investing activities** | **(21,513)** | (1,873) |
| **Net cash used in financing activities** | **(24,277)** | (30,671) |
| **Net decrease in cash and cash equivalents** | **(33,958)** | (14,344) |
| **Cash and cash equivalents at beginning of the period** | **71,151** | 60,447 |
| Effect of foreign exchange rate changes | **(449)** | (292) |
| **Cash and cash equivalents at end of the period** | **36,744** | 45,811 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Cash and bank balances | **36,744** | 49,553 |
| Bank overdraft | **–** | (3,742) |
| | **36,744** | 45,811 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2020*

## 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 are Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and Room 2702, 27/F, Tower 2, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, New Territories, respectively. The Company is listed on the Main Board of the Stock Exchange of Hong Kong Limited.

The Company is an investment holding company and its subsidiaries (collectively, the "**Group**") are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the People's Republic of China (the "**PRC**").

## 2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements do not include all the information required for annual financial statements and thereby should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019 ("**2019 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 2019 Annual Report and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2020.

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.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$50,447,000 at 30 June 2020. The ultimate impact of the COVID-19 pandemic on the Group is uncertain at the date of which the unaudited condensed consolidated financial statements were authorised for issue. In the opinion of the directors of the Company, the Group has a number of sources of finance available to fund its operations. Taking into account of the available banking facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

**(A) New and amended standards adopted by the Group**

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 2020. The Group has adopted the following new and revised standards for the first time for the current period's condensed consolidated financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9,HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |

Except as described below, the application of the new and amendments to HKFRSs in the current period 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 condensed consolidated financial statements.

**Amendment to HKFRS 16, Covid-19-Related Rent Concessions**

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("**COVID-19-related rent concessions**") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see Note 5). There is no impact on the opening balance of equity at 1 January 2020.

**(B) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:**

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2022 |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework | 1 January 2022 |
| Amendments to HKAS 16 | Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022 |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| Annual Improvements to HKFRSs 2018-2020 Cycle | Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 | 1 January 2022 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | No mandatory effective date yet determined |

These standards are mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2020. At this stage, the Group does not intend to adopt these standards before their effective date.

## 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 six months ended 30 June 2019 and 2020, 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 six months ended 30 June 2019 and 2020 and certain non-current assets information as at 31 December 2019 and 30 June 2020 by geographic area.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Revenue from external customers** | | |
| Hong Kong | **43,198** | 96,589 |
| Mainland China | **48,279** | 82,203 |
| | **91,477** | 178,792 |

| | **30 June 2020** | 31 December 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| **Non-current assets** | | |
| Hong Kong | **75,127** | 87,575 |
| Mainland China | **134,235** | 150,668 |
| | **209,362** | 238,243 |

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

## 4 REVENUE AND OTHER INCOME

Revenue from the operation of restaurants and other income during the six months ended 30 June 2019 and 2020 are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Revenue from customers and recognised at point in time** | | |
| Revenue from Chinese restaurant operations | **86,381** | 176,493 |
| Revenue from Thai Cuisine restaurant operations | **5,096** | 2,299 |
| | **91,477** | 178,792 |
| **Other income** | | |
| Interest income on short-term bank deposits | **29** | 212 |
| Interest income from deposits placed for a life insurance policy | **40** | 71 |
| Government grants | **3,465** | – |
| Government subsidies | **2,896** | – |
| Forfeiture of deposits received | **–** | 46 |
| Miscellaneous income | **369** | 51 |
| | **6,799** | 380 |
| **Total revenue and other income** | **98,276** | 179,172 |
| Total interest income on financial assets measured at amortised cost | **69** | 283 |

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 | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Depreciation | | |
| – property, plant and equipment | **8,393** | 5,858 |
| – right-of-use assets | **21,914** | 21,558 |
| | **30,307** | 27,416 |

Other expenses include the following items:

| | | |
|---|---|---|
| Auditors' remuneration | | |
| – audit services | **341** | 311 |
| – non audit services | **90** | 90 |
| Operating lease payments of premises | | |
| – Contingent rent for premises* | **846** | 2,033 |
| – COVID-19 rent concessions | **(4,989)** | – |
| Lease payment not included in the measurement of lease liabilities | **2,683** | 4,241 |
| Impairment loss on trade receivables | **120** | – |

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

## 6 FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Interest expense on bank borrowings | **171** | 239 |
| Interest expense on lease liabilities | **6,632** | 4,629 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **6,803** | 4,868 |

## 7 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Current tax** | | |
| Current tax on profits for the period | | |
| – Hong Kong | **–** | 173 |
| – The PRC | **10** | 1,204 |
| | **10** | 1,377 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **470** | 84 |
| Income tax expense | **480** | 1,461 |

No provision for Hong Kong profits tax is made in the condensed consolidated financial statements as the Group has no assessable profits derived in Hong Kong for the six months ended 30 June 2020. For the six months ended 30 June 2019, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime.

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 period ended 30 June 2020 and 2019.

## 8 DIVIDEND

The Board of Directors of the Company does not recommend the payment of any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

## 9 LOSS PER SHARE

The basic and diluted loss per share and weighted average number of ordinary shares for the period ended 30 June 2019 have been adjusted to reflect the rights issue which was effective on 17 December 2019.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Loss** | | |
| Loss for the period attributable to the owners of the Company | **(23,642)** | (9,447) |

| | **2020** | 2019 |
|---|---|---|
| | ***'000*** | *'000* |
| | | (Restated) |
| **Number of shares** | | |
| Weighted average number of shares for the purpose of calculating basis earnings per share | **1,000,000** | 806,504 |

The diluted loss per share is equal to basic loss per share as there was no potential dilutive ordinary shares outstanding during the six months ended 30 June 2019 and 2020.

## 10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment with a cost of approximately HK$1,929,000 (six months ended 30 June 2019: HK$2,085,000).

## 11 RIGHT-OF-USE ASSETS

| | Motor Vehicle<br>*HK$'000* | Premises<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **Cost** | | | |
| As at 1 January 2020 (audited) | 919 | 233,078 | 233,997 |
| Exchange realignment | – | (3,062) | (3,062) |
| Adjustments upon modification of a lease | – | 3,710 | 3,710 |
| Transfer to property, plant and equipment | (919) | – | (919) |
| Written-off | – | (2,298) | (2,298) |
| As at 30 June 2020 (unaudited) | – | 231,428 | 231,428 |
| **Accumulated depreciation and impairment** | | | |
| As at 1 January 2020 (audited) | 919 | 65,117 | 66,036 |
| Exchange realignment | – | (363) | (363) |
| Charge for the period | – | 21,914 | 21,914 |
| Transfer to property, plant and equipment | (919) | – | (919) |
| Written-off | – | (2,298) | (2,298) |
| As at 30 June 2020 (unaudited) | – | 84,370 | 84,370 |
| **Carry amount** | | | |
| As at 30 June 2020 (unaudited) | – | 147,058 | 147,058 |
| As at 31 December 2019 (audited) | – | 167,961 | 167,961 |

## 12 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 30 June 2020 HK$'000 (unaudited) | 31 December 2019 HK$'000 (audited) |
|---|---|---|
| Rental deposits | **21,572** | 21,749 |
| Utility deposits | **2,887** | 1,913 |
| Other deposits, prepayments and other receivables | **7,415** | 8,229 |
| | **31,874** | 31,891 |
| Less: Non-current portion – rental deposits | **(14,770)** | (14,948) |
| Current portion | **17,104** | 16,943 |

## 13 DEPOSITS PAID FOR ACQUISITION OF A SUBSIDIARY

On 9 January 2020, the Group entered into an equity transfer agreement to acquire 70% equity interest in a target company which operates more than 30 food counters selling roasted meat and delicatessen under the brand names of "Sun Kau Kee* (新玖記)" and "Chaojiangjun* (潮將軍)" through online and offline stores at Freshippo in Shanghai, the PRC. Pursuant to the equity transfer agreement, the Group had paid deposits in an aggregate amount of RMB17,920,000 (equivalent to approximately HK$19,613,000), being 80% of the consideration, to the vendors of the target company. The details of the acquisition were disclosed in the announcement of the Company dated 9 January 2020. The acquisition was completed in July 2020.

## 14 TRADE RECEIVABLES

| | 30 June 2020 HK$'000 (unaudited) | 31 December 2019 HK$'000 (audited) |
|---|---|---|
| Trade receivables | **4,018** | 3,955 |
| Less: allowance for impairment losses | **(228)** | (111) |
| | **3,790** | 3,844 |

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 2020 HK$'000 (unaudited) | 31 December 2019 HK$'000 (audited) |
|---|---|---|
| 0 to 30 days | **2,378** | 3,352 |
| 31 to 60 days | **231** | 209 |
| 61 to 90 days | **130** | 155 |
| Over 90 days | **1,051** | 128 |
| | **3,790** | 3,844 |

## 15 PLEDGED BANK DEPOSITS

Deposits are pledged to banks to secure general banking facilities granted to the Group.

## 16 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 2019 (audited) and 30 June 2020 (unaudited) | 2,000,000,000 | 20,000 |
| **Issued and fully paid:** | | |
| As at 31 December 2019 (audited) and 30 June 2020 (unaudited) | 1,000,000,000 | 10,000 |

## 17 BANK BORROWINGS

| | **30 June 2020** ***HK$'000*** **(unaudited)** | 31 December 2019 *HK$'000* (audited) |
|---|---|---|
| Bank borrowings due for repayment within one year (secured) | – | 7,444 |

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

| | **30 June 2020** ***HK$'000*** **(unaudited)** | 31 December 2019 *HK$'000* (audited) |
|---|---|---|
| Within one year | – | 7,444 |

As at 31 December 2019, the bank loans were guaranteed by the Company together with pledged bank deposits of approximately HK$11,029,000 provided by the Group.

## 18 LEASE LIABILITIES

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

| | At 31 December 2019 | | **At 30 June 2020** | |
|---|---|---|---|---|
| | Present value of the minimum lease payments *HK$'000* (audited) | Total minimum lease payments *HK$'000* (audited) | **Present value of the minimum lease payments** ***HK$'000*** **(unaudited)** | **Total minimum lease payments** ***HK$'000*** **(unaudited)** |
| Within one year | 67,267 | 69,209 | **71,025** | **72,584** |
| After one year but within two years | 48,994 | 53,664 | **38,801** | **42,571** |
| After two years but within five years | 68,469 | 88,909 | **66,907** | **86,343** |
| After five years | 24,135 | 43,853 | **17,834** | **32,221** |
| | 141,598 | 186,426 | **123,542** | **161,135** |
| | 208,865 | 255,635 | **194,567** | **233,719** |
| Less: total future interest expenses | | (46,770) | | **(39,152)** |
| Present value of lease liabilities | | 208,865 | | **194,567** |

## 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 MAJOR NON CASH TRANSACTIONS

For the six months ended 30 June 2020, the Group entered into an extension agreement for renewal of an existing lease arrangement in respect of a premises for restaurant operation. Right-of-use assets and lease liabilities were adjusted by an amount of approximately HK$3,710,000 for the change in lease term.

For the six months ended 30 June 2019, the Group entered into lease arrangements in respect of the acquisition of right-of-use assets with a total capital value at the inception of the leases of approximately HK$48,702,000.

## 21 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the condensed consolidated financial statements were as follows:

| | **30 June 2020** ***HK$'000*** | 31 December 2019 *HK$'000* |
|---|---|---|
| Contracted for: | | |
| – acquisition of a subsidiary | **4,903** | – |

## 22 TRADE PAYABLES

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

| | **30 June 2020** | 31 December 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| 0 to 30 days | **6,763** | 10,996 |
| 31 to 60 days | **1,494** | 3,427 |
| 61 to 90 days | **137** | 1,747 |
| Over 90 days | **4,784** | 180 |
| | **13,178** | 16,350 |

## 23 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions with a related party during the reporting periods:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Rental expenses paid to Richfield Develop Limited *(Note)* | **107** | 107 |

*Note:*

Richfield Develop Limited is a company controlled by the controlling shareholders. Rental expenses paid to the related company were charged at terms mutually agreed by both parties.

## 24 LITIGATION AND CONTINGENT LIABILITIES

Except for the case set out below, the Group did not have significant contingent liabilities as at 30 June 2020 and up to the date of this announcement.

As announced by the Company on 6 January 2020, Excel Linker (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company received a Writ of Summons together with an indorsement of claim (the "**Indorsement**") dated 31 December 2019 and a statement of claim dated 17 January 2020 issued in the High Court of The Hong Kong Special Administrative Region by Foxhill Investments Limited as plaintiff (the "**Plaintiff**") against Excel Linker (Hong Kong) Limited as defendant (the "**Defendant**").

It is stated in the Indorsement that the Plaintiff's claim against the Defendant is in relation to the breach of the Tenancy Agreement dated 18 April 2018 (the "**Tenancy Agreement**") for wrongfully failing and/or refusing to pay the rent and/or management fees and/or government rates in respect of the premises located at Units 201-202 on the Second Floor of Infinitus Plaza, No.199 Des Voeux Road, Central, Hong Kong (the "**Premises"**) since 1 October 2019. As at 30 June 2020, the Group had recognised a payable approximately HK$7,497,000 on the rent, management fee, penalty and related interest in relation to the Premises in the condensed consolidated financial statement.

Up to the date of this announcement, the case is still in proceedings. On the basis of currently available information, the Director's considered that the legal proceedings are unlikely to result in any other material outflow of economic benefits from the Group and no further provision has been made in the condensed consolidated financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND OPERATIONAL REVIEW

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

For the six months ended 30 June 2020, the Group operated five full-service restaurants in Hong Kong and three full-service restaurants in Shenzhen, the PRC to provide Cantonese cuisine under the brand name of "Star of Canton (利寶閣)". The Group also operated a Jingchuanhu cuisine restaurant in Hong Kong under the brand name of "Beijing House (京香閣)" and two full service small-scale Cantonese restaurants in Shenzhen, the PRC under the brand name of "Star of Canton Dim Sum Tea House (利寶閣點心茶居)". The Group also operated a Thai cuisine restaurant in Hong Kong in June 2019 under the brand name of "La Maison D' Elephant (象屋)" (the "**Thai (Mongkok) Restaurant**") in a shopping mall in Mongkok district. 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 2020, the Group had,

*In Hong Kong:*

(i) four Chinese restaurants which were located in Tsim Sha Tsui (i.e. The One Restaurant), Causeway Bay (i.e. the CWB Restaurant), Olympian City (i.e. the Olympian Restaurant) and Kwun Tong (i.e. the Kwun Tong Restaurant), respectively. The Sheung Wan Restaurant and the Beijing House Restaurant were closed in February 2020;

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

*In Shenzhen, the PRC:*

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

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

## FINANCIAL REVIEW

### Revenue

For the six months ended 30 June 2020, the Group recorded a total revenue of approximately HK$91.5 million, representing a decrease of approximately 48.8% as compared to approximately HK$178.8 million for the six months ended 30 June 2019.

The Group's total revenue for the six months ended 30 June 2020 mainly comprised the aggregate revenue of the six Chinese restaurants in Hong Kong of approximately HK$38.1 million (2019: approximately HK$95.9 million), the revenue of the three Chinese restaurants in Shenzhen, the PRC of approximately HK$45.2 million (2019: approximately HK$80.6 million), the revenue of the small scale dim sum tea houses of approximately HK$3.0 million, and the revenue of the Thai (Mongkok) Restaurant of approximately HK$5.1 million.

Aggregate revenue of the Group's restaurants in Hong Kong was approximately HK$38.1 million for the six months ended 30 June 2020, decreasing by approximately 60.3% as compared to the corresponding period in 2019. Besides, the aggregate revenue of the Group's Chinese restaurants in Shenzhen was decreased by approximately 43.9% over the same periods. The Directors consider such decrease in revenue for both Hong Kong and Shenzhen, the PRC regions was mainly due to, among others, the accelerated downtrend of the Hong Kong and China economy and the compulsory social distancing measures complemented by the authorities since the COVID-19 pandemic (the "**Pandemic**").

### Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$57.3 million for the six months ended 30 June 2020, representing a decrease of approximately 51.1% from approximately HK$117.1 million for the six months ended 30 June 2019, which was in line with the decrease in revenue during the Period. Nevertheless, the Group's overall gross profit margin decreased from approximately 65.5% for the six months ended 30 June 2019 to approximately 62.7% for the six months ended 30 June 2020. Such decrease was mainly due to (i) the Group offered more concessions to attract customers in view of the sluggish economy and the catering sector, and (ii) the general food cost inflation, which resulted in an overall decline in the Group's gross profit margin for the Period.

**Employee benefits expense**

Employee benefits expense was approximately HK$27.8 million for the six months ended 30 June 2020 (2019: approximately HK$47.6 million), representing a decrease of approximately 41.6% as compared to the corresponding period in 2019. Thanks to 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 corresponding period of the last year. 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 six months ended 30 June 2020 was approximately HK$21.9 million (2019: HK$21.6 million) in respect of right-of-use assets in relation to the Group's leased properties.

**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 six months ended 30 June 2020, other expenses amounted to approximately HK$22.4 million (2019: approximately 45.6 million), representing a decrease of approximately HK$23.3 million or 51.0% which was mainly due to the combined effects of cost control and decline in revenue.

**Finance costs**

Finance costs for the six months ended 30 June 2020 included approximately HK$6.6 million (2019: HK$4.6 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 six months ended 30 June 2020, the Group recorded a loss attributable to owners of the Company of approximately HK$23.6 million, whereas the Group recorded a loss attributable to owners of the Company of approximately HK$9.4 million for the six months ended 30 June 2019. Such loss-making position for the six months ended 30 June 2020, representing increase in net loss by approximately HK$14.2 million as compared to the corresponding period in 2019, was mainly due to the combined effects of (i) significant negative impact on Group's business by the Pandemic and (ii) the closure of the Sheung Wan Restaurant and Beijing House.

## 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.

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 2020, was to lower the gearing ratio to an acceptable level.

As at 30 June 2020, the Group's cash and bank balances were approximately HK$36.7 million, representing a decrease of approximately HK$34.4 million as compared with approximately HK$71.2 million as at 31 December 2019. The decrease was mainly due to deposit of approximately HK$19.6 million paid for the acquisition as set out in the "Events after the reporting period", repayment of bank loans of HK$7.4 million and, operating expenses, etc.

As at 30 June 2020, cash and bank balances and restricted bank deposits of approximately HK$40.8 million included HK$26 million and HK$14.8 million which were denominated in Hong Kong dollars and Renminbi, respectively.

### *Indebtedness and Banking Facilities*

As at 30 June 2020, the Group did not have any bank borrowings.

As at 30 June 2020, the Group's gearing ratio was 0%.

### *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 2020, there were 1,000,000,000 ordinary shares in issue. There was no movement in the issued share capital of the Company during the six months ended 30 June 2020.

### Commitments

Save for HK$4.9 million of balance of acquisition consideration for the acquisition as set out in the "Events after the reporting period", as at 30 June 2020, the Group had no significant outstanding contracted capital commitments.

### Charge on Assets

As at 30 June 2020, the Group pledged its bank deposits of approximately HK$4.1 million as securities for the Group's revolving bank loans facilities of HK$5.0 million.

### Contingent Liabilities

Except for those disclosed in note 24 to the condensed consolidated financial statements, the Group did not have any other material contingent liabilities as at 30 June 2020.

### Employees and Remuneration Policies

The Group had approximately 663 employees as at 30 June 2020. The employee benefits expense, including Directors' emoluments, of the Group was approximately HK$27.8 million and HK$47.6 million for the six months ended 30 June 2020 and 2019, respectively. The remuneration policy of the Group is based on merit, performance and individual competence.

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

The remuneration committee of the Board reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the share option scheme adopted by the Company on 16 June 2016. During the six months ended 30 June 2020, 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 2020 (six months ended 30 June 2019: nil).

**Prospects**

The successful Listing and the Transfer of Listing marked major milestones as well as a new chapter of the Company. However, due to the uncertainties of the Hong Kong and Mainland China economies, the Directors anticipate that the Group's business will face various challenges in the foreseeable future. The Group's key risk exposures and uncertainties are summarised as follows:

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

(ii) the Group may fail to obtain leases for desirable locations for new restaurants or fail to renew existing leases on commercially acceptable terms, which would have a material adverse effect on the Group's business and future development;

(iii) the operation of the Group may be affected by the price of the food ingredients, including the price of the imported food ingredients which will be affected by the floating of the foreign currencies;

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

(v) the worsening of the Hong Kong and Mainland China economies as a result of the intensifying and increasingly gloominess of the situation of the China-US trade war which negatively affected the consumption sentiments of the general public and consequently affected the retail and catering sectors;

(vi) the recent series of demonstrations in Hong Kong against an extradition bill proposed by the Hong Kong government seriously affected the retail and catering sectors, including certain regions where the Group operates; and

(vii) the outbreak of the Pandemic in Hong Kong and Mainland China since January 2020, which may adversely affect the Group's restaurant business in second half of the year.

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

Nonetheless, the management of the Company is optimistic that the Group can succeed and enhance the shareholders' value in the medium to long run, based on the years of experience of the senior management of the Company in managing Chinese restaurant business in Hong Kong and Shenzhen, the PRC and its business strategies.

Since the end of last year, the Group has established a strategic cooperation with Freshippo, a member of Alibaba Group, to accelerate the development of the light meal takeaway market in Mainland China through Freshippo's enormous network and technology platform. The Group has adopted a light-asset business model, both physical and online (O2O) operation mode, to penetrate into high consumption power markets such as the Greater Bay Area and Eastern China, laying a solid foundation for cross-regional development and corporate transformation.

Although the catering industry was affected by the pandemic earlier this year, the "Report on the Resumption of Work and Production in the Catering Industry in the First Half of 2020" released by the China Cuisine Association in July 2020 indicated that the majority catering industry in the Mainland China was already resumed operations at a rate of 70% to 80% compared to their pre-pandemic levels and the industry is now in the recovery stage. The Group believes that with the recovery trends in Mainland China, coupled with the strong O2O technology and online and offline customer flow provided by Freshippo, the Group's pace of recovery will be accelerated. The Group will continue to deepen its cooperation with Freshippo, and seek to open shop-in-shops in promising locations to capture the O2O catering opportunities in the Mainland China. Meanwhile, the Group will introduce new products with pure Hong Kong flavors and develop new dishes to enhance the competitiveness of its products. The Group is planning to retail its products, including the introduction of special soups and take-away light meal, in order to explore more sources of revenue.

As for the Hong Kong business, the Group will continue to pay close attention to the development of the local market and continue to work with landlords to seek rent remission and streamline operating costs in various aspects to enhance efficiency.

In spite of the challenging industry outlook, the Group will continue to work hard to meet the challenges, strengthen its capabilities with a flexible and courageous mindset, and enhance its business performance to meet the future.

**Use of proceeds from the Listing**

The shares of the Company were listed on the GEM of the Stock Exchange on 30 June 2016 with net proceeds received by the Company from the Placing in the amount of approximately HK$59.1 million after deducting underwriting commissions and all related expenses.

As at 30 June 2020, the net proceeds from placing were applied as follows:

| | Planned use of proceeds as stated in the Prospectus up to 31 December 2018 *HK$'000* | Actual use of proceeds up to 30 June 2020 *HK$'000* |
|---|---|---|
| Progressive expansion in the PRC market | 48,000 | 48,000 |
| Enhancement of existing restaurant facilities | 1,500 | 1,500 |
| Enhancement of marketing and promotions | 3,000 | 3,000 |

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

As at 30 June 2020, all of HK$59.1 million out of the net proceeds from the Listing had been used.

The Company applied the net proceeds in the manner as stated in the Prospectus.

**Use of proceeds from the Rights Issue**

The Company's Rights Issue was completed on 17 December 2019 with net proceeds received by the Company in the amount of approximately HK$45.8 million after deducting underwriting commissions and related expenses.

As at 30 June 2020, the net proceeds from the Rights Issue were applied as follows:

| | Planned use of net proceeds as stated in the Circular *HK$'000* | Actual use of net proceeds up to 30 June 2020 *HK$'000* |
|---|---|---|
| Repayment of the Group's indebtedness and interest expenses | 7,500 | 7,500 |
| Payment of renovation and refurbishment costs of the Group's restaurants | 20,500 | 6,850 |
| General working capital | 17,800 | 17,800 |

As at 30 June 2020, approximately HK$32.2 million out of the net proceeds from the Rights Issue had been used in accordance with the planned usage as detailed above. The portion of net proceeds yet to be used was deposited in licensed banks in Hong Kong, and is expected to be progressively utilised in the second half of 2020.

**Events after the reporting period**

On 9 January 2020, the Group entered into an equity transfer agreement to acquire 70% equity interest in a target company which operates more than 30 food counters selling roasted meat and delicatessen under the brand names of "Sun Kau Kee* (新玖記)" and "Chaojiangjun* (潮將軍)" through online and offline stores at Freshippo in Shanghai, the PRC. Details of the acquisition are set out in the announcement of the Company dated 9 January 2020. The acquisition was completed on 22 July 2020.

Save for the above events, the Board is not aware of any important event affecting the Group since the end of 30 June 2020 up to the date of this announcement.

## OTHER INFORMATION

### Directors' Interests in Competing Business

Set out below are details of certain catering businesses of the Controlling Shareholders which were not included into the Group as at the date of this announcement. As disclosed in the Prospectus, the Controlling Shareholders were engaged in such businesses as at the date of Listing. For further details, please refer to the section headed "Relationship with Controlling Shareholders – Excluded Catering Businesses" in the Prospectus.

## EXCLUDED CATERING BUSINESSES

### Li Jia Cha Chaan Teng (麗嘉茶餐廳)

As at the date of this announcement, Mr. Chan, one of the Controlling Shareholders, an executive Director, the chairman of the Board and the chief executive officer of the Company, held 100% of the interest in a cha chaan teng named Li Jia Cha Chaan Teng (麗嘉茶餐廳) located at the same building where the Shenzhen Restaurant is located (the "**Li Jia Cha Chaan Teng**"). The Li Jia Cha Chaan Teng is a Hong Kong-style cafe that serves Asian and Western foods in a casual environment which commenced business in November 2014.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the business of the Li Jia Cha Chaan Teng and the Group's business and any competition between the two businesses is remote due to difference in terms of (i) operation model, (ii) target customers, (iii) management, (iv) staff and (v) location and variety of selections for customers.

Taking into account the above and the fact that: (i) the Group's restaurants aim at providing exquisite cuisine to customers with medium to high average spending and has no intention to step in the business of cha chaan teng in near future; and (ii) the Group intends to utilise its funding to expand its current business, the Directors confirm that the Group has no present intention to acquire the Li Jia Cha Chaan Teng. Mr. Chan has undertaken to the Group that (i) in case of disposal of any interest in the Li Jia Cha Chaan Teng, he shall promptly notify the Group in writing and the Group shall have the first right of refusal to acquire the interest in the Li Jia Cha Chaan Teng to be disposed of by Mr. Chan within 30 days (or such longer period the Group is required to complete the approval procedures required under the Listing Rules from time to time) after receipt of the notice from Mr. Chan; and (ii) that so long as he holds any beneficially interest in the Li Jia Cha Chaan Teng, he will procure that the Li Jia Cha Chaan Teng will not engage in any business that will or will likely compete with the Group's business.

The Group shall only exercise the right of first refusal upon approval of all the independent non-executive Directors (who do not have any interest in such transaction). Mr. Chan and the other conflicting Director (if any) shall abstain from participating in and voting at and shall not be counted as quorum at the meeting of the Directors for considering whether the Group will exercise the first right of refusal.

### Hong Wo Kok Restaurant (康和閣酒家)

As at the date of this announcement, Mr. Ho, one of the Controlling Shareholders, held 80% of the interest in the company which has been operating a Chinese restaurant under the name of "Hong Wo Kok Restaurant" (the "**Old Hong Wo Kok Restaurant**"). The Old Hong Wo Kok Restaurant commenced business in November 2014 and serves Chinese cuisine.

Mr. Ho opened another Chinese Restaurant under the name of "Hong Wo Kok Restaurant" in September 2018 (the "**New Hong Wo Kok Restaurant**", together with the Old Hong Wo Kok Restaurant, the "**Hong Wo Kok Restaurants**"). The New Hong Wo Kok Restaurant has dining rooms with mahjong facilities serving Chinese cuisine.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the business of the Hong Wo Kok Restaurants and the Group's business and that any competition between the two businesses is remote due to difference in terms of (i) geographical locations, (ii) operation model, (iii) target customers, (iv) management and (v) staff.

In terms of target customers, the Directors noted that all of the Group's restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations, and that the Group's restaurants target at mid-to-high end spending customers from the local neighborhood, office and tourists with the average spending of over HK$200 per head. On the other hand, the Hong Wo Kok Restaurants are located at Whampoa Garden, a large private housing estate in Hung Hom District which is a major residential area. To the best knowledge of the Directors upon due inquiry, the Hong Wo Kok Restaurants target residents from the local neighborhood with the average spending of around HK$100 per head.

Save as disclosed in the above, the Directors were not aware of any other plan for business expansion by the Hong Wo Kok Restaurants. Taking into account of the aforesaid factors, the Directors confirm that the Group has no present intention to acquire the Hong Wo Kok Restaurants in near future.

Mr. Ho has undertaken to the Group that as long as he retains any equity interest in the Hong Wo Kok Restaurants, he will not agree to be appointed as any director or management of any member of the Group.

**Prince Cafe (太子茶餐廳)**

As at the date of this announcement, Ms. Tsui Y. Y., one of the Controlling Shareholders, has been operating a cha chaan teng named Prince Cafe (太子茶餐廳) (the "**Prince Cafe**") located in Lei Yue Mun, Kowloon, Hong Kong. The Prince Cafe is a Hong Kong-style cafe that serves Asian and Western foods in a casual environment which commenced business in April 2014.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the business of the Prince Cafe and the Group's restaurant business and any competition between the two businesses is remote due to difference in terms of (i) geographical locations, (ii) operation model, (iii) target customers, (iv) management and (v) staff.

Given the above, the Directors confirm that the Group has no present intention to acquire the Prince Cafe in near future.

Ms. Tsui Y. Y. has undertaken to the Group that as long as she retains any interest in the Prince Cafe, she will not agree to be appointed as any director or management of any member of the Group.

**Prince Roasted Meat Restaurant (太子燒味餐廳)**

As at the date of this announcement, Mr. Tsui K. F., Mr. Lam, Ms. Tsui Y. Y. and Mr. Tsui C. K., each of them being a Controlling Shareholder and Mr. Lam being an executive Director and the compliance officer of the Company, held, in aggregate, 75% shareholding in a company which operates a cha chaan teng named Prince Roasted Meat Restaurant (太子燒味餐廳) (the "**Roasted Meat Cha Chaan Teng**") located in Shatin, New Territories, Hong Kong. The Roasted Meat Cha Chaan Teng is a Hong Kong-style cafe that serves Asian food, in particular roasted meat with rice, in a casual environment which commenced business in June 2016.

As disclosed in the Prospectus, the Directors were of the view that there is a clear delineation between the businesses of the Roasted Meat Cha Chaan Teng and the Group's restaurants and any competition between the two businesses is remote due to difference in terms of (i) geographical locations, (ii) operation model, (iii) target customers, (iv) management and (v) staff.

Given the above, the Directors confirm that the Group has no present intention to acquire the Roasted Meat Cha Chaan Teng in near future.

Each of Mr. Tsui K. F., Ms. Tsui Y. Y. and Mr. Tsui C. K. has undertaken to the Group that as long as he/she retains any interest in the Roasted Meat Cha Chaan Teng, he/she will not agree to be appointed as any director or management of any member of the Group.

On 16 June 2016, Zhao Tian, Mr. Chan, Mrs. Chan, Bright Creator, Hong Cui, Mr. Wong, Sun Foo Sing, Sky Gain, Mr. Ho, Mr. Tsui K. F., Mr. David Chow, Mr. Anthony Chow, Mr. Lam, Ms. Tsui Y. Y., Mr. Tsui C. K. and Mr. Tam (each a "**Covenantor**" and collectively the "**Covenantors**") have entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company and its subsidiaries. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of its subsidiaries) that, save and except as disclosed in the Prospectus, during the period that the Deed of Non-competition remains effective, she/he/it shall not, and shall procure that her/his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within Hong Kong and such other parts of the world where any member of the Group may operate from time to time, save for the holding of not more than 5% shareholding interests (individually or with her/his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with her/his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with her/his/its close associates).

The Directors confirmed that the undertakings contained in the Deed of Non-competition have been fully complied with by the Group and the Covenantors since the Company's listing on GEM up to the date of this announcement.

On 23 August 2018, the Covenantors and the Company entered into a supplemental deed confirming that the Deed of Non-Competition shall remain in full force and effect notwithstanding the transfer of listing of Shares from GEM to Main Board (the "**Supplemental Deed**").

Save as disclosed above and as of the date of this announcement, none of the Directors or Controlling Shareholders or their respective close associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, nor any other conflict of interest which any such person has or may have with the Group.

## Corporate Governance

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**Code**") in Appendix 14 of the Listing Rules. For the six months ended 30 June 2020, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the Code, except for certain deviations as specified with considered reasons for such deviations as explained below.

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

During the six months ended 30 June 2020, the Company did not separate the roles of chairman and chief executive officer of the Company. Mr. Chan was the chairman and also the chief executive officer of the Company responsible for overseeing the operations of the Group during the Period. In view of the fact that Mr. Chan has been operating and managing the Group since 1998, the Board believed that it was in the best interests of the Group to have Mr. Chan taking up both roles for effective management and business development. The Board also believed that vesting the roles of both chairman and chief executive officer in the same person had the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although Mr. Chan performed both roles of chairman and chief executive officer, the division of responsibilities between the two roles was clearly established. While the chairman was responsible for supervising the functions and performance of the Board, the chief executive officer was responsible for the management of the Group's business. The Board considered that the balance of power and authority for the present arrangement would not be impaired given the appropriate delegation of the power of the Board to the Senior Management for the day-to-day management of the Group, and the effective functions of the independent non-executive Directors representing at least one-third of the Board such that no individual had unfettered power of decisions. This structure would also enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

## Code of Conduct for Securities Transactions by Directors

The Company has adopted the required standard of dealings set out in 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 six months ended 30 June 2020.

## Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 June 2020.

The Company did not redeem any of its listed securities during the six months ended 30 June 2020.

**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 2020 and there were no outstanding share options under the Share Option Scheme as at 30 June 2020.

**Audit Committee and Review of Accounts**

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee reviews, amongst others, the financial information of the Group, the relationship with and terms of appointment of the external auditors, and the Company's financial reporting system, internal control system and risk management system.

The Audit Committee consists of three independent non-executive Directors, chaired by Prof. Wong Lung Tak Patrick and the other two members are Mr. Yuen Ching Bor, Stephen and Mr. Liu Chi Keung.

The unaudited interim financial results of the Group for the six months ended 30 June 2020 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, 28 August 2020

*As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Ms. Chan Wai Sze, Josephine and Ms. Zhu Xueqin, the non-executive director Mr. Chow Yiu Pong David and the independent non-executive Directors are Mr. Liu Chi Keung, Prof. Wong Lung Tak Patrick and Mr. Yuen Ching Bor, Stephen.*