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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINAL RESULTS

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 audited consolidated results of the Group for the year ended 31 December 2018, together with the comparative figures for the previous financial year ended 31 December 2017 as set out below. Unless otherwise specified, terms used herein shall have the same meanings as those defined in the Company’s prospectus dated 24 June 2016 (the “**Prospectus**”).

FINANCIAL HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$360.5 million for the year ended 31 December 2018, representing an increase of approximately 17.4% as compared with the year ended 31 December 2017.
- The profit attributable to owners of the Company amounted to approximately HK\$2.3 million for the year ended 31 December 2018, representing a substantial decrease of approximately 90.2% as compared with the year ended 31 December 2017.
- A final dividend for the year ended 31 December 2018 of HK0.50 cents per share has been proposed by the Board and is subject to the approval by the Shareholders in the forthcoming AGM.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December	
		2018	2017
		HK\$'000	HK\$'000
Revenue	6	360,509	307,001
Other income	6	2,041	2,322
Other losses		(97)	(6)
Cost of materials consumed		(119,946)	(91,066)
Employee benefits expense		(86,196)	(65,779)
Depreciation		(16,507)	(12,107)
Other expenses	7	(132,068)	(109,690)
Operating profit		7,736	30,675
Listing expenses		(2,235)	–
Finance costs	8	(494)	(566)
Profit before income tax		5,007	30,109
Income tax expense	9	(2,745)	(6,921)
Profit for the year attributable to owners of the Company		2,262	23,188
Other comprehensive (expense)/income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		(3,264)	1,219
Total comprehensive (expense)/income for the year attributable to owners of the Company		(1,002)	24,407
Basis earnings per share	11	HK cent 0.28	HK cent 2.90

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2018	2017
	Notes	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		49,842	54,934
Rental deposits		19,284	17,035
Deposits placed for life insurance policies		2,048	5,742
Deposits paid for property, plant and equipment		–	5,578
Deferred tax assets		8,380	6,050
		<u>79,554</u>	<u>89,339</u>
Current assets			
Inventories		15,722	12,434
Trade receivables	12	4,014	9,474
Deposits, prepayments and other receivables		9,284	8,406
Current tax recoverable		1,238	770
Pledged bank deposits		11,002	11,001
Cash and cash equivalents		60,447	67,494
		<u>101,707</u>	<u>109,579</u>
Total assets		<u>181,261</u>	<u>198,918</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	8,000	8,000
Reserves		115,283	128,398
		<u>123,283</u>	<u>136,398</u>
Total equity		<u>123,283</u>	<u>136,398</u>

		As at 31 December	
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Deposits received		–	69
Contract liabilities		25	–
Obligations under finance leases	<i>16</i>	67	262
Provision for reinstatement costs		4,823	3,939
		<hr/> 4,915	<hr/> 4,270
Current liabilities			
Trade payables	<i>14</i>	7,365	9,225
Accruals, provisions and deposits received		18,386	32,108
Contract liabilities		15,860	–
Bank borrowings	<i>15</i>	10,567	13,776
Obligations under finance leases	<i>16</i>	195	192
Current tax payable		690	2,949
		<hr/> 53,063	<hr/> 58,250
Total liabilities		<hr/> 57,978	<hr/> 62,520
Total equity and liabilities		<hr/> 181,261	<hr/> 198,918
Net current assets		<hr/> 48,644	<hr/> 51,329

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Exchange translation reserve HK\$'000	Retained profits HK\$'000	
Balance as at 1 January 2017	8,000	55,134	42,396	(2,146)	15,407	118,791
Profit for the year	–	–	–	–	23,188	23,188
Currency translation differences	–	–	–	1,219	–	1,219
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	–	–	–	1,219	23,188	24,407
Dividend paid	–	–	–	–	(6,800)	(6,800)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2017	<u>8,000</u>	<u>55,134</u>	<u>42,396</u>	<u>(927)</u>	<u>31,795</u>	<u>136,398</u>
Balance as at 31 December 2017	8,000	55,134	42,396	(927)	31,795	136,398
Change in accounting policy - HKFRS 9	–	–	–	–	(113)	(113)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 1 January 2018 (restated)	8,000	55,134	42,396	(927)	31,682	136,285
Profit for the year	–	–	–	–	2,262	2,262
Currency translation differences	–	–	–	(3,264)	–	(3,264)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive (expense)/income for the year	–	–	–	(3,264)	2,262	(1,002)
Dividend paid (<i>note 10</i>)	–	–	–	–	(12,000)	(12,000)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2018	<u>8,000</u>	<u>55,134</u>	<u>42,396</u>	<u>(4,191)</u>	<u>21,944</u>	<u>123,283</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

Li Bao Ge Group Limited (the “**Company**”) was incorporated in the Cayman Islands on 1 September 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company’s registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Company’s shares (the “**Shares**”) were initially listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Listing**”) since 30 June 2016 (the “**Listing Date**”). The listing of the Shares was transferred to the Main Board of the Stock Exchange since 5 September 2018 (the “**Transfer of Listing**”).

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 STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”). A summary of significant accounting policies adopted by the Group is set out in note 3 in the Notes to the Consolidated Financial Statements (the “**Notes**”) section of the annual report to be sent to the Shareholders.

The HKICPA has issued certain new, revised HKFRSs and interpretation that are first effective or available for early adoption for the current accounting period of the Group. Note 4 of the Notes provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

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

3 PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the accountants’ report included in the Prospectus, except for the new standards, amendments and interpretations (“**the New HKFRSs**”) issued by the HKICPA that are adopted for the first time for the current year’s consolidated financial statements. The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other newly adopted standards or amendments did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period. The Group had not early adopted any new or revised standards or interpretations that have been issued but are not yet effective.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

5 SEGMENT INFORMATION

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

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

The Group is principally engaged in the operation of food catering services through a chain of Chinese restaurants. Information reported to the CODM for the purpose of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group’s resources are integrated and no discrete operating segment financial information is available. Accordingly, the Group has identified one operating segment – operation of restaurants and no operating segment information is presented.

For the years ended 31 December 2017 and 2018, 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 years ended 31 December 2017 and 2018 and certain non-current assets information as at 31 December 2017 and 2018 by geographic area.

	Year ended 31 December	
	2018	2017
	HK\$’000	HK\$’000
Revenue from external customers		
Hong Kong	183,426	186,049
Mainland China	177,083	120,952
	<u>360,509</u>	<u>307,001</u>

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

	31 December	31 December
	2018	2017
	HK\$’000	HK\$’000
Non-current assets		
Hong Kong	13,086	13,869
Mainland China	36,756	41,065
	<u>49,842</u>	<u>54,934</u>

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

6 REVENUE AND OTHER INCOME

An analysis of revenue and other income during the years ended 31 December 2017 and 2018 are as follows:

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Revenue		
Revenue from Chinese restaurant operations	353,040	305,533
Revenue from Thai Cuisine restaurant operations	5,841	–
Revenue from sale of food ingredients	1,628	1,468
	<u>360,509</u>	<u>307,001</u>
Other income		
Interest income on short-term bank deposits	157	342
Interest income from deposits placed for life insurance policies	206	235
Forfeiture of deposits received	46	113
Reversal of impairment loss on trade receivables	43	–
Government incentive	1,189	1,396
Miscellaneous income	400	236
	<u>2,041</u>	<u>2,322</u>
Total revenue and other income	<u>362,550</u>	<u>309,323</u>
Total interest income on financial assets measured at amortised cost	<u>363</u>	<u>577</u>

7 OTHER EXPENSES

Other expenses include the following items:

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Auditor's remuneration		
– audit services	690	560
– non audit services	158	145
Operating lease expenses		
– Normal rent for premises	51,868	44,371
– Contingent rent for premises*	6,180	6,959
	<u>6,180</u>	<u>6,959</u>

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

8 FINANCE COSTS

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Interest expense on bank borrowings	478	540
Finance charges on obligations under finance leases	16	26
	<hr/>	<hr/>
Total interest expenses on financial liabilities not at fair value through profit or loss	494	566

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Current tax		
Current tax on profits for the year		
– Hong Kong	818	2,215
– The PRC	4,491	5,508
Overprovided in prior year	(114)	(46)
	<hr/>	<hr/>
	5,195	7,677
Deferred tax		
Origination and reversal of temporary differences	(2,450)	(798)
Underprovided in prior year	–	42
	<hr/>	<hr/>
	(2,450)	(756)
	<hr/>	<hr/>
Income tax expense	2,745	6,921

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying subsidiary will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of subsidiaries not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the year ended 31 December 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. For the year ended 31 December 2017, Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profits for the subsidiaries of the Group incorporated in Hong Kong.

According to the PRC Enterprise Corporate Tax Law promulgated by the PRC government, the PRC’s statutory income tax rate is 25%. The Company’s PRC subsidiaries are subject to income tax at the rate of 25% for the years ended 31 December 2017 and 2018.

10 DIVIDENDS

Pursuant to the board of Directors’ meeting on 25 March 2019, the Directors recommended to declare the final dividend for the year ended 31 December 2018 of HK0.50 cents per share totaling HK\$4,000,000. Such recommendation is to be approved by the Shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 23 May 2019 (the “**AGM**”). Dividend declared after the end of the reporting period is not recognised as a liability at the end of the reporting period.

Final dividends of HK\$12,000,000 for the year ended 31 December 2017 was declared on 12 February 2018, and was paid in full in June 2018.

11 EARNINGS PER SHARE

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

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Earnings		
Profit for the year attributable to the owners of the Company	<u>2,262</u>	<u>23,188</u>
Number of shares		
Weighted average number of shares for the purpose of calculating basis earnings per share	<u>800,000,000</u>	<u>800,000,000</u>

Diluted earnings per share was the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2017 and 2018.

12 TRADE RECEIVABLES

	31 December	31 December
	2018	2017
	HK\$'000	HK\$'000
Trade receivables	4,113	9,474
Less: allowance for impairment losses	<u>99</u>	<u>–</u>
	<u>4,014</u>	<u>9,474</u>

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:

	31 December	31 December
	2018	2017
	HK\$'000	HK\$'000
0 to 30 days	3,298	8,289
31 to 60 days	515	1,092
61 to 90 days	181	29
Over 90 days	<u>20</u>	<u>64</u>
	<u>4,014</u>	<u>9,474</u>

As at 31 December 2017, trade receivables that were not past due nor impaired amounted to approximately HK\$8,289,000. These balances relate to a wide range of customers for whom there was no recent history of default.

As at 31 December 2017, trade receivables of approximately HK\$1,185,000 were past due but not impaired. Trade receivables that were past due but not impaired mainly related to receivables from corporate or individual customers which have a long business relationship with the Group. Based on past experience, the directors are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable.

The Group applies the HKFRS 9 simplified approach as at 1 January 2018 to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by approximately HK\$145,000 for trade receivables.

13 SHARE CAPITAL

	Number of Ordinary shares	Nominal value of Ordinary share <i>HK\$'000</i>
Authorised: Ordinary shares of HK\$0.01 each as at 1 January 2017, 31 December 2017 and 2018	2,000,000,000	20,000
Issued and fully paid: As at 1 January 2017, 31 December 2017 and 2018	800,000,000	8,000

14 TRADE PAYABLES

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

	31 December 2018 <i>HK\$'000</i>	31 December 2017 <i>HK\$'000</i>
0 to 30 days	6,795	8,248
31 to 60 days	225	706
61 to 90 days	171	47
Over 90 days	174	224
	<u>7,365</u>	<u>9,225</u>

15 BANK BORROWINGS

	31 December 2018 <i>HK\$'000</i>	31 December 2017 <i>HK\$'000</i>
Bank borrowings due for repayment within one year – secured	8,118	8,218
Bank borrowings due for repayment after one year which contain a repayment on demand clause – secured	2,449	5,558
	<u>10,567</u>	<u>13,776</u>

As at 31 December 2017 and 2018, the banking facilities of the Group were secured by bank deposits of approximately HK\$11,001,000 and HK\$11,002,000 respectively of the Group and corporate guarantee of the Company.

16 OBLIGATIONS UNDER FINANCE LEASES

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

	31 December 2018 HK\$'000	31 December 2017 HK\$'000
Gross finance lease liabilities		
– minimum lease payments		
No later than 1 year	204	208
Later than 1 year and no later than 5 years	67	270
	271	478
Future finance charges on finance leases	(9)	(24)
	262	454
Present value of finance lease liabilities	262	454
The present value of finance lease liabilities is as follows:		
No later than 1 year	195	192
Later than 1 year and no later than 5 years	67	262
	262	454

As at 31 December 2017 and 2018, finance lease liabilities were secured by motor vehicles.

17 CAPITAL COMMITMENTS

As at 31 December 2018, the Group had outstanding capital commitments in respect of purchase of property, plant and equipment contracted but not provided for in the amount of approximately HK\$0.2 million (2017: HK\$1.8 million).

18 OPERATING LEASE COMMITMENTS

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

The operating leases of certain restaurant properties also call for additional rentals, which will be based on a certain percentage of revenue of the operation being undertaken therein pursuant to the terms and conditions as stipulated in the respective rental agreements. As the future revenue of these restaurants could not be accurately determined as at the reporting date, the relevant contingent rentals have not been included.

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

	31 December 2018 HK\$'000	31 December 2017 HK\$'000
No later than 1 year	54,907	48,367
Later than 1 year and no later than 5 years	111,365	94,340
Later than 5 years	32,464	51,486
	198,736	194,193

19 RELATED PARTY TRANSACTIONS

Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with its related parties during the years ended 31 December 2017 and 2018:

	Year ended 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses paid to Richfield Develop Limited (<i>note</i>)	<u>214</u>	<u>214</u>

Note:

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

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. It also offers Thai cuisine under a newly-established brand.

Restaurants Operation

For the year ended 31 December 2018, the Group operated five full-service restaurants in Hong Kong and two 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 a Thai cuisine restaurant in Shenzhen, the PRC under the Group’s own brand of “La Maison D’Elephant (象屋)”. All of the Group’s restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations. The Group maintains a business philosophy of offering quality food and services at reasonable prices in an elegant and comfortable dining setting. All of the Group’s restaurants target at mid-to-high end spending customers.

As at 31 December 2018, the Group had six restaurants in Hong Kong, two of which were located in Sheung Wan (i.e. the Sheung Wan Restaurant and the Beijing House Restaurant) and the remaining four 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 Group’s two Chinese restaurants in Shenzhen, the PRC were located in Futian District (i.e. the Shenzhen Restaurant) and Baoan District (i.e. the Shenzhen Uniwalk Restaurant) respectively, while the Thai cuisine restaurant (i.e. the “**Thai Restaurant**”) was located in Futian District.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded a total revenue of approximately HK\$360.5 million, representing an increase of approximately 17.4% as compared to approximately HK\$307.0 million for the year ended 31 December 2017.

The Group’s total revenue for the year ended 31 December 2018 comprised the aggregate revenue of the six restaurants in Hong Kong of approximately HK\$181.8 million, including revenue from the Kwun Tong Restaurant which was newly opened in December 2018 (2017: five restaurants of approximately HK\$184.5 million), the revenue of the two Chinese restaurants in Shenzhen of approximately HK\$171.3 million (2017: approximately HK\$121.0 million), the revenue of the Thai Restaurant which was opened in January 2018, of approximately HK\$5.8 million (2017: nil), as well as revenue from sales of food ingredients of approximately HK\$1.6 million (2017: HK\$1.5 million).

Excluding the revenue of approximately HK\$3.5 million contributed by the Kwun Tong Restaurant which was newly opened in December 2018, the aggregate revenue of the Group's restaurants in Hong Kong for the year ended 31 December 2018 had moderately decreased by approximately 3.4% as compared to the year ended 31 December 2017, which was mainly due to the intensifying competition of the catering industry and the economic downturn in the second half of 2018. The Directors consider the downturn of economy (including the downturn of the property and stock markets) which worsened in the second half of 2018 affected the consumption sentiment of customers. On the other hand, the increase in revenue of the Group's Chinese restaurants in Shenzhen by approximately 41.6% over the year was mainly due to the full-year revenue contribution of approximately HK\$67.6 million from the Shenzhen Uniwalk Restaurant which was newly opened in October 2017 (2017: approximately HK\$16.8 million). Nevertheless, the revenue of the Shenzhen Restaurant slightly decreased by approximately 0.5% to approximately HK\$103.7 million for the year ended 31 December 2018 (2017: approximately HK\$104.2 million). The Directors consider the downturn of China economy and the China-US trade war affected the consumption sentiments of customers, particularly in the second half of 2018, which offset the increase in revenue of the Shenzhen Restaurant in the first half of 2018.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK\$240.6 million for the year ended 31 December 2018, representing an increase of approximately 11.4% from approximately HK\$215.9 million for the year ended 31 December 2017, which was in line with the increase in revenue during the year. Nevertheless, the Group's overall gross profit margin decreased from approximately 70.3% for the year ended 31 December 2017 to approximately 66.7% for the year ended 31 December 2018. Such decrease was mainly due to (i) the general cost inflation of food ingredients in respect of the Group's restaurant operations in Hong Kong which resulted in the overall decline in gross profit margin of the Group's Hong Kong operation from approximately 72.3% for the year ended 31 December 2017 to approximately 71.0% for the year ended 31 December 2018; (ii) the shrink of gross profit margin of the Group's restaurant operations in the PRC from approximately 66.0% for the year ended 31 December 2017 to approximately 62.2% for the year ended 31 December 2018 due to food cost inflation, and in particular, the further increase in price of frozen meats upon the outbreak of African swine fever in China since August 2018; and (iii) the increase in proportion of revenue contribution of the Group's restaurant operations in the PRC (which accounted for approximately 39.4% and 49.1% the Group's total revenue for the years ended 31 December 2017 and 2018 respectively), which entailed a relatively lower gross profit margin as compared with the Group's operations in Hong Kong and resulted in the average down of the Group's overall gross profit margin.

Employee benefits expense

Employee benefits expense was approximately HK\$86.2 million for the year ended 31 December 2018 (2017: approximately HK\$65.8 million), representing an increase of approximately 31.0% as compared to 2017 which was mainly due to the addition of workforce for the recently opened Shenzhen Uniwalk Restaurant and the Thai Restaurant, as well as general salary increment and bonus payment in relation to the success in the Transfer of Listing of the Company. Going forward, the Group will closely monitor the cost control in respect of staff salaries, and at the same time the Group will regularly review the work allocation of the staff in order to improve the overall work efficiency and maintain a quality standard of service.

Other expenses

Other expenses mainly include but not limited to expenses incurred for the Group's restaurant operation, consisting of operating lease expenses, building management fee and air conditioning charges, cleaning and laundry expenses, utility expenses, service fees to temporary workers, advertising and promotion. For the year ended 31 December 2018, other expenses amounted to approximately HK\$132.1 million (2017: HK\$109.7 million), representing an increase of approximately 20.4% which was mainly due to (i) increase in operating lease expenses of approximately HK\$6.7 million, mainly in accordance with the rental increment terms of the tenancy agreements of the Group's restaurant premises and the incurring of full-year rental payments in respect of the Shenzhen Uniwalk Restaurant and the Thai Restaurant which were opened in October 2017 and January 2018 respectively; and (ii) the increase in other operating expenses of the Shenzhen Uniwalk Restaurant and the Thai Restaurant by an aggregate of approximately HK\$8.5 million.

Profit attributable to owners of the Company

For the year ended 31 December 2018, the Group's profit attributable to owners of the Company was approximately HK\$2.3 million, representing a substantial decrease of approximately HK\$20.9 million or 90.2% from approximately HK\$23.2 million for the year ended 31 December 2017. Such decrease was mainly due to the combined net effects of (i) the decrease in operating profit of the Shenzhen Restaurant by approximately HK\$9.8 million, mainly due to food cost inflation and increase in certain operating expenses; (ii) the overall decrease in operating profit of the Group's restaurant operation in Hong Kong (except the Kwun Tong Restaurant) by approximately HK\$9.6 million, mainly due to gentle decrease in revenue and the overall decline in gross profit margin as a result of general food cost inflation; (iii) the full-year operating profit of approximately HK\$5.9 million generated by the Shenzhen Uniwalk Restaurant which was opened in October 2017 (2017: approximately HK\$1.0 million); (iv) the operating loss of approximately HK\$4.6 million incurred during the initial stage of operation by the Thai Restaurant which was opened in January 2018; and (v) the operating loss of approximately HK\$1.3 million incurred during the initial stage of operation by the Kwun Tong Restaurant which was newly opened in December 2018; (vi) the incurring of listing expenses of approximately HK\$2.2 million for the year ended 31 December 2018 in connection with Transfer of Listing; and (vii) the decrease in income tax expense by approximately HK\$4.2 million.

Liquidity, financial resources and capital structure

Capital Structure

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

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

The Group monitors its capital on the basis of the gearing ratio. The Group's strategy, which was unchanged during the year ended 31 December 2018, was to maintain the gearing ratio at an acceptable level.

As at 31 December 2018, the Group's cash and cash equivalents were approximately HK\$60.4 million, representing a decrease of approximately HK\$7.0 million as compared with approximately HK\$67.5 million as at 31 December 2017. The decrease was mainly due to the additions of property, plant and equipment for the recently opened restaurants.

As at 31 December 2018, cash and cash equivalents and restricted bank deposits amounted to approximately HK\$71.4 million, of which approximately HK\$32.3 million and HK\$39.1 million were denominated in Hong Kong dollars (“**HK\$**”) and Renminbi (“**RMB**”), respectively.

Indebtedness and Banking Facilities

As at 31 December 2018, the Group had bank borrowings of approximately HK\$10.6 million, which were all denominated in HK\$, bearing interest rates ranging from Hong Kong Interbank Offer Rate (“**HIBOR**”) plus 2.0% to HIBOR plus 3.0% per annum and were secured by pledged bank deposits of approximately HK\$11.0 million.

As at 31 December 2018, the Group’s gearing ratio was approximately 8.8%, which is calculated based on the interest-bearing debts divided by total equity attributable to owners of the Company as at 31 December 2018 and multiplied by 100%. The Directors, taking into account the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 31 December 2018 was reasonable.

Foreign Exchange Exposure

Most of the income and expenditures of the Group are denominated in HK\$ and RMB, which are the functional currencies of the respective group entities. Although HK\$ is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the year under review. Thus no significant exposure is expected on RMB transactions and balances. Accordingly, the Group does not have any material foreign exchange exposure. During the year ended 31 December 2018, the Group had not used any financial instruments for hedging purposes.

Securities in Issue

As at 31 December 2018, there were 800,000,000 ordinary shares in issue. There was no movement in the issued share capital of the Company during the year ended 31 December 2018.

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

There was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2018. Save as disclosed in this announcement, there was no plan for material investment or capital assets as at 31 December 2018.

Capital Commitments

As at 31 December 2018, the Group had outstanding contracted capital commitments of approximately HK\$0.2 million in respect of purchase of property, plant and equipment.

Charge on Assets

As at 31 December 2018, the Group pledged its bank deposits of approximately HK\$11.0 million as securities for the Group’s bank borrowings of approximately HK\$10.6 million. Save as disclosed above, the Group did not have any charge over its assets.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 630 employees as at 31 December 2018. The employee benefits expense, including Directors' emoluments, of the Group were approximately HK\$86.2 million for the year ended 31 December 2018 (2017: HK\$65.8 million).

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

The remuneration committee of the Board (the "**Remuneration Committee**") reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the share option scheme adopted by the Company on 16 June 2016. During the year ended 31 December 2018, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Directors recommend the payment of a final dividend of HK0.50 cents per Share for the year ended 31 December 2018 (2017: HK1.50 cents per Share), to the Shareholders whose names appear on the register of members of the Company on Friday, 31 May 2019, subject to the approval by the Shareholders at the forthcoming AGM to be held on Thursday, 23 May 2019 and in compliance with the laws of the Cayman Islands and other relevant rules and regulations.

Prospects

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

- (i) the Group's future success relies heavily on its ability to constantly offer menu items, creatively-designed banquet and dining services based on changing market trends and changing tastes, dietary habits, expectations and other preferences of the Group's target customers. As such, significant costs 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 Group may fail to obtain leases of desirable locations for new restaurants or renew existing leases on commercially acceptable terms, and the aforesaid potential failure 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 fluctuating exchange rate; and
- (iv) there may be labour shortage in the future and competition for qualified individuals in the food and beverage industry may be intense.

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

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

The operation of the Kwun Tong Restaurant, which was opened in December 2018, is expected to gradually get back on track. The Thai Restaurant incurred an operating loss during the year ended 31 December 2018 due to unsatisfactory number of customer visits. The Directors will consider the appropriate marketing strategies in the hope of improving its performance in the coming year.

Besides, the restaurant premises of the Group's another new Chinese restaurant, namely the Shenzhen One Avenue Restaurant was initially expected to be handover for renovation in mid-2017 and the restaurant was expected to commence operation around the end of 2017. However, the Group was given to understand from the relevant landlord that the completion of construction of the relevant shopping mall would be delayed due to the extra time needed to amend and complete various construction works to the satisfaction of the relevant government departments, and to achieve overall construction completion thereafter. As such, the Directors, based on their latest understanding from the landlord, the restaurant premises would be delayed for handover to the Group for commencing renovation until around the second quarter of 2019. Consequently, the Directors currently expect that the Shenzhen One Avenue Restaurant would commence operation around the fourth quarter of 2019. Albeit the substantial delay of the opening of the Shenzhen One Avenue Restaurant from the original plan, the Directors consider such delay would not have material adverse impact on the Group's expansion plan in the PRC, as it has always been the Group's strategy to adopt a cautious and progressive approach in respect of its business development in the PRC. In respect of the portion of the net proceeds raised from the Placing, i.e. approximately HK\$20.0 million for the purpose of funding the renovation expenditure of the Shenzhen One Avenue Restaurant, the relevant proceeds has been set aside and deposited in banks pending such usage.

Going forward, the Group's objective is to become a reputable multi-brand restaurant group with a diverse customer base in Hong Kong and the PRC to provide Cantonese and Jingchuanhu cuisines, Chinese banquet and dining services for large-scale events, as well as other non-Chinese cuisines. Although the Group currently does not have specific plan for opening other non-Chinese cuisine restaurants, given that it is the Group's business philosophy to offer quality food and services at reasonable prices under an elegant and comfortable dining environment, the Group would target to capture the mid-to-high end spending customers when considering the opening of any new non-Chinese cuisine restaurants in the future, in order to maintain the Group's positioning in the mid-to-high end catering market. The Group will continue to utilise its available resources to implement its business strategies, namely, 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. The Group will also consider the expansion of its catering business into other types of cuisines when opportunities arise, taking into account the Group's available resources, with the aim to maximize the return to its Shareholders.

Comparison of Business Plan with Actual Business Progress

The following is a comparison of the Group's business objectives as set out in the Prospectus with actual business progress up to 31 December 2018:

	Business objectives up to 31 December 2018 as stated in the Prospectus	Actual business progress up to 31 December 2018
1. Progressive expansion in the PRC market	The Group planned to open two restaurants serving Cantonese cuisine with a focus on the mid-to-high end income group during 2017	<ul style="list-style-type: none"> (i) In respect of the Shenzhen One Avenue Restaurant, the Group was pending the handover of the restaurant premises by the landlord upon completion of construction of the shopping mall regarding the new restaurant. It is currently expected that the Shenzhen One Avenue Restaurant will be opened in the fourth quarter of 2019. (ii) The restaurant premises of the Shenzhen Uniwalk Restaurant was handed over in March 2017. The restaurant has commenced operation in October 2017. (iii) The total cost incurred for renovation and acquisition of equipment for the Shenzhen Uniwalk Restaurant was approximately HK\$34.6 million (RMB30.4 million). The excess over the budgeted amount of approximately HK\$28.0 million was financed by the internal resources of the Group.

	Business objectives up to 31 December 2018 as stated in the Prospectus	Actual business progress up to 31 December 2018
2. Enhancement of existing restaurant facilities	Refurbishment and acquisition, upgrading or replacement of existing equipment and facilities	The refurbishment, upgrading and replacement of existing equipment facilities for The One Restaurant had been completed.
3. Enhancement of marketing and promotions	Launch of marketing activities for promoting brand image	The promotion of wedding banquet services had been launched through the participation in wedding exhibitions and other marketing activities including meal sets promotion through media, websites' cash coupons and bank credit card promotion.

Use of proceeds from the Listing

The shares of the Company (the “**Shares**”) 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 31 December 2018, the net proceeds from the 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 31 December 2018 HK\$'000
Progressive expansion in the PRC market	48,000	28,000
Enhancement of existing restaurant facilities	1,500	1,500
Enhancement of marketing and promotions	3,000	3,000
	<u>52,500</u>	<u>32,500</u>

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 31 December 2018, approximately HK\$32.5 million out of the net proceeds from the Listing had been used. The unused net proceeds were deposited in licensed banks in Hong Kong.

The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly review the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group.

EVENTS AFTER THE REPORTING DATE OF 31 DECEMBER 2018

The Board is not aware of any important event requiring disclosure that has been taken place subsequent to 31 December 2018 and up to the date of this announcement.

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 beneficial 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 will have 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 above, the Directors were not aware of any other plan for business expansion by the Hong Wo Kok Restaurants. Taking into account 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 Café (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 Café (太子茶餐廳) (the “**Prince Café**”) located in Lei Yue Mun, Kowloon, Hong Kong. The Prince Café is a Hong Kong-style café 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 Café 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 Café in near future.

Ms. Tsui Y. Y. has undertaken to the Group that as long as she retains any interest in the Prince Café, 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 café 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**”).

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

On 13 February 2017 (after trading hours), the Company has resolved to exercise the Right of First Refusal. On the same date, Keen Nation Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Tsang, pursuant to which Mr. Tsang conditionally agreed to sell and Keen Nation Limited conditionally agreed to acquire, 180,000 ordinary shares of Profit Shiner Investment Limited at the consideration of HK\$1,800,000, which shall be satisfied by internal resources of the Group in the form of cash (the “**Proposed Acquisition**”). As certain conditions precedent had not been satisfied or waived by the Group on or before the long stop date and no extension of time was agreed by the parties, the acquisition agreement had lapsed in accordance with the terms thereof and the Proposed Acquisition was not proceeded with as at 31 May 2017.

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

Save as disclosed above 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 that 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 is committed to ensure a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company has complied with the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules and Appendix 14 to the Main Board Listing Rules (before and since the Transfer of Listing respectively) from the Listing Date to 31 December 2018. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code from the Listing Date to 31 December 2018, except for certain deviations as specified with considered reasons for such deviations as explained below.

Under Code Provision A.2.1 of the CG Code (for both the GEM Listing Rules and the Main Board Listing Rules), the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

From the Listing Date to 31 December 2018, the Company has not separated 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 and is responsible for overseeing the operations of the Group during such period. In view of the fact that Mr. Chan has been operating and managing the Group since 1998, the Board believes that it is in the best interests of the Group to have Mr. Chan taking up both roles for effective management and business development. The Board also believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although Mr. Chan performs both roles of chairman and chief executive officer, the division of responsibilities between the two roles is clearly established. While the chairman is responsible for supervising the functions and performance of the Board, the chief executive officer is responsible for the management of the Group's business. The Board considers that the balance of power and authority for the present arrangement will not be impaired given the appropriate delegation of the power of the Board to the senior management of the Company for the day-to-day management of the Group, and the effective functions of the independent non-executive Directors representing at least one-third of the Board such that no one individual has unfettered power of decisions. This structure will also enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in the GEM Listing Rules (before the Transfer of Listing) and the Main Board Listing Rules (since the Transfer of Listing) 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 year ended 31 December 2018.

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

Neither the Company nor any of its subsidiaries had purchased or sold any of the listed securities of the Company during the year ended 31 December 2018. The Company did not redeem any of its listed securities during the year ended 31 December 2018.

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 year ended 31 December 2018 and there were no outstanding share options under the Share Option Scheme as at 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held at Beijing House Restaurant, which is located at 2/F, Infinitus Plaza, 199 Des Voeux Road Central, Central, Hong Kong on Thursday, 23 May 2019 at 10:30 a.m. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 20 May 2019 to Thursday, 23 May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 May 2019.

The proposed final dividend is subject to the passing of an ordinary resolution by the Shareholders at the forthcoming AGM. The record date for entitlement to the proposed final dividend is Friday, 31 May 2019. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 31 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Tuesday, 28 May 2019. The payment of final dividend will be made on or about Friday, 21 June 2019.

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. Tam Tak Kei Raymond and Mr. Liu Chi Keung.

The audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

SCOPE OF WORK OF TING HO KWAN & CHAN CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Ting Ho Kwan & Chan CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ting Ho Kwan & Chan CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ting Ho Kwan & Chan CPA Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.starofcanton.com.hk). The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and posted on the above websites in due course.

By Order of the Board
Li Bao Ge Group Limited
Chan Chun Kit
Chairman and Executive Director

Hong Kong, 25 March 2019

As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Mr. Lam Kwok Leung Peter, Mr. Wong Ka Wai and Mr. Chow Yiu Pong David and the independent non-executive Directors are Mr. Liu Chi Keung, Prof. Wong Lung Tak Patrick and Mr. Tam Tak Kei Raymond.