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利·寶·閣

Li Bao Ge Group Limited

利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023 (the “**Period**”) together with the comparative figures for the corresponding period in 2022 (the “**Previous Period**”) as set out below. This interim results announcement has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

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

- revenue of the Group amounted to approximately HK\$93.5 million, representing an increase of approximately 24.8% as compared with the Previous Period.
- loss attributable to owners of the Company amounted to approximately HK\$4.1 million, representing a decrease in loss by approximately HK\$21.9 million as compared with a loss attributable to owners of the Company of approximately HK\$26.0 million for the Previous Period.
- loss per share was approximately HK0.37 cents.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023 <i>HK\$'000</i> (unaudited)	2022 <i>HK\$'000</i> (unaudited)
Revenue	4	93,456	74,857
Other income	4	836	2,221
Cost of materials consumed		(32,916)	(27,516)
Employee benefits expense		(26,524)	(26,467)
Depreciation	5	(14,820)	(23,996)
Other expenses	5	(19,368)	(18,230)
		<hr/>	<hr/>
Operating profit/(loss)		664	(19,131)
Impairment loss on property, plant and equipment		–	(1,999)
Impairment loss on right-of-use assets		–	(502)
Finance costs	6	(4,286)	(4,324)
		<hr/>	<hr/>
Loss before income tax		(3,622)	(25,956)
Income tax expense	7	(486)	(261)
		<hr/>	<hr/>
Loss for the period		(4,108)	(26,217)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising from translation of financial statements of foreign operations		1,398	830
		<hr/>	<hr/>
Total comprehensive loss for the period		(2,710)	(25,387)
		<hr/> <hr/>	<hr/> <hr/>
Loss attributable to:			
Owners of the Company		(4,105)	(25,982)
Non-controlling interests		(3)	(235)
		<hr/>	<hr/>
		(4,108)	(26,217)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(2,930)	(25,215)
Non-controlling interests		220	(172)
		<hr/>	<hr/>
		(2,710)	(25,387)
		<hr/> <hr/>	<hr/> <hr/>
		<i>HK cent</i>	<i>HK cent</i>
Basic loss per share	9	(0.37)	(2.60)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023 <i>HK\$'000</i> (unaudited)	31 December 2022 <i>HK\$'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		13,240	18,794
Right-of-use assets		52,528	62,847
Rental deposits		6,613	6,502
Deposits placed for a life insurance policy		2,639	3,244
		75,020	91,387
Current assets			
Inventories		9,150	9,412
Trade receivables	10	1,655	1,603
Deposits, prepayments and other receivables		12,412	13,745
Loan receivable		1,405	1,470
Current tax recoverable		107	6
Amounts due from related companies		7	7
Financial assets at fair value through profit or loss		–	791
Cash and cash equivalents		25,011	23,503
		49,747	50,537
Total assets		124,767	141,924
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	11,051	11,051
Reserves		(75,581)	(72,651)
		(64,530)	(61,600)
Non-controlling interests		(4,842)	(5,062)
Total deficits		(69,372)	(66,662)

		30 June	31 December
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		61,827	74,794
Provision for reinstatement costs		3,359	3,475
		<u>65,186</u>	<u>78,269</u>
Current liabilities			
Trade payables	13	9,201	11,638
Accruals, provisions and deposits received		52,841	50,640
Amount due to a non-controlling shareholder		1,206	1,262
Amounts due to related companies		1,453	1,117
Contract liabilities		14,826	16,903
Bank borrowings	12	19,194	20,776
Lease liabilities		28,282	26,031
Provision for reinstatement costs		1,950	1,950
		<u>128,953</u>	<u>130,317</u>
Total liabilities		<u>194,139</u>	<u>208,586</u>
Total deficits and liabilities		<u>124,767</u>	<u>141,924</u>
Net current liabilities		<u>(79,206)</u>	<u>(79,780)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 Act (2013 Revision) of the Cayman Islands. The address of the Company’s registered office and principal place of business in Hong Kong are Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and Room B, 5/F, On Fat Industrial Building, 12–18 Kwai Wing Road, Kwai Chung, New Territories, Hong Kong, respectively. The Company is listed on the Main Board of the Stock Exchange.

The Company is an investment holding company and its subsidiaries are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the People’s Republic of China (“**China**” or the “**PRC**”).

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements do not include all the information required for annual financial statements and thereby should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2022 (“**2022 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 2022 Annual Report and there have been no significant changes in the financial risk management policies for the Period.

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

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

During the Period, the Group recorded a consolidated net loss of approximately HK\$4,108,000 and, as of 30 June 2023, the Group had net liabilities of approximately HK\$69,372,000 and its current liabilities exceeded its current assets by approximately HK\$79,206,000.

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

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

- (i) the Group had interest-bearing bank borrowings of approximately HK\$19,194,000 as at 30 June 2023, of which approximately HK\$3,236,000 is repayable within one year. The remaining interest-bearing bank borrowings, amounting to approximately HK\$15,958,000 were classified as current liabilities due to the existence of a repayment on demand clause in the loan agreements. The Group will actively negotiate with the bank for the renewal of the Group’s bank borrowings when they fall due in order to secure necessary funds to meet the Group’s working capital and financial requirements in the foreseeable future;

- (ii) the Group is actively negotiating with banks to obtain additional funds to finance the Group's working capital and improve the liquidity positions; and
- (iii) the Group will continue to take active measures to control expenses through various channels including human resources optimisation and management remuneration adjustments.

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

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these unaudited condensed consolidated financial statements.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the Period are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

(A) New and amended standards adopted by the Group

The Hong Kong Institute of Certified Public Accountants has issued a number of new HKFRSs and amendments to HKFRSs, which are effective for accounting periods beginning on or after 1 January 2023. The Group has adopted the following new and revised standards for the first time for the current period's condensed consolidated financial statements.

HKFRS 17	Insurance Contracts
Amendments to HKFRS 17	Insurance Contracts
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

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

3 SEGMENT INFORMATION

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

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

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

For the Previous Period and the Period, there are no single external customers contributed more than 10% revenue of the Group.

Geographical information

The following tables present revenue from external customers for the Previous Period and the Period.

	Six months ended 30 June	
	2023 <i>HK\$’000</i> (unaudited)	2022 <i>HK\$’000</i> (unaudited)
Revenue from external customers		
Hong Kong	8,686	18,021
Mainland China	84,770	56,836
	<u>93,456</u>	<u>74,857</u>

4 REVENUE AND OTHER INCOME

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

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Revenue from customers and recognised at point in time		
Revenue from Chinese restaurant operations	93,456	71,939
Revenue from Thai Cuisine restaurant operations	–	2,900
Revenue from cooperation with Freshippo	–	18
	<u>93,456</u>	<u>74,857</u>
Other income		
Interest income on short-term bank deposits	213	93
Government grants	–	1,936
Government subsidies	170	–
Miscellaneous income	453	192
	<u>836</u>	<u>2,221</u>
Total revenue and other income	<u>94,292</u>	<u>77,078</u>
Total interest income on financial assets measured at amortised cost	<u>213</u>	<u>93</u>

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	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Depreciation		
– property, plant and equipment	4,921	7,870
– right-of-use assets	9,899	16,126
	<u>14,820</u>	<u>23,996</u>
Other expenses include the following items:		
Auditors' remuneration		
– audit services	478	361
– non audit services	–	90
Operating lease payments of premises		
– Contingent rent for premises	297	–
– COVID-19 rent concessions	–	(3,474)
Lease payment not included in the measurement of lease liabilities	629	1,968
Impairment loss on trade receivables, net	21	7
Property, plant and equipment written-off	–	516
	<u>–</u>	<u>516</u>

6 FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest expense on bank borrowings	341	319
Interest expense on lease liabilities	3,945	4,005
	<u>4,286</u>	<u>4,324</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>4,286</u>	<u>4,324</u>

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Deferred tax		
Origination and reversal of temporary differences	<u>486</u>	<u>261</u>
Income tax expense	<u><u>486</u></u>	<u><u>261</u></u>

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

No provision for the PRC profits tax is made in the unaudited condensed consolidated financial statements as the Group has sufficient tax losses brought forward available to offset the estimated assessable profits of the Period.

8 DIVIDEND

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

9 LOSS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to the owners of the Company	<u>(4,105)</u>	<u>(25,982)</u>
	2023	2022
	'000	'000
Number of Shares		
Weighted average number of Shares for the purpose of calculating basic loss per Share	<u>1,105,100</u>	<u>1,000,000</u>

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

10 TRADE RECEIVABLES

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Trade receivables	1,937	1,872
Less: allowance for impairment losses	<u>(282)</u>	<u>(269)</u>
	<u>1,655</u>	<u>1,603</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:

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
0 to 30 days	1,141	1,213
31 to 60 days	82	109
61 to 90 days	55	18
Over 90 days	<u>377</u>	<u>263</u>
	<u>1,655</u>	<u>1,603</u>

11 SHARE CAPITAL

	Number of Ordinary Shares	Nominal value of Ordinary Shares HK\$'000
Authorised:		
Ordinary Shares of HK\$0.01 each as at 31 December 2022 (audited) and 30 June 2023 (unaudited)	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
As at 31 December 2022 (audited) and 30 June 2023 (unaudited)	<u>1,105,100,000</u>	<u>11,051</u>

12 BANK BORROWINGS

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Bank borrowings due for repayment within one year (unsecured)	3,236	3,192
Bank borrowings due for repayment after one year which contain a repayment on demand clause (unsecured)	<u>15,958</u>	<u>17,584</u>
	<u>19,194</u>	<u>20,776</u>

13 TRADE PAYABLES

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

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
0 to 30 days	4,591	2,284
31 to 60 days	1,044	2,751
61 to 90 days	363	1,273
Over 90 days	<u>3,203</u>	<u>5,330</u>
	<u>9,201</u>	<u>11,638</u>

BUSINESS AND OPERATIONAL REVIEW

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

For the Period, the Group operated one full-service restaurant in Hong Kong under the brand name of “**Li Bao House** (利寶會館)” (the “**Central Restaurant**”) (i.e. a new high class Chinese restaurant of the Group). The Group also operated three full-service restaurants in Shenzhen, the PRC, under the brand name of “**Star of Canton** (利寶閣)”.

Despite of the gradual resumption of economic activities in Hong Kong and the PRC, the catering industry is still facing huge challenges and the business environment remains weak as compared to that before the fifth wave of the novel coronavirus disease COVID-19 pandemic (the “**COVID-19**” or the “**Pandemic**”). The Group remained vigilant by constantly adjusting the menu mix and taking measures to optimize operations and enhance production efficiency, so as to cope with the unpredictable market environment.

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

All of the Group’s restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations. The Group maintains a business philosophy of offering quality food and services at reasonable prices in an elegant and comfortable dining setting. All of the Group’s restaurants target at mid-to-high-end spending customers.

As at 30 June 2023, the Group had,

In Hong Kong:

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

In Shenzhen, the PRC:

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

Due to the impact of the COVID-19, the expansion plan of the Group has been delayed.

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded a total revenue of approximately HK\$93.5 million, representing an increase of approximately 24.8% as compared to approximately HK\$74.9 million for the Previous Period.

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

- (1) the revenue of the Chinese restaurant in Hong Kong of approximately HK\$8.7 million (Previous Period: approximately HK\$15.1 million), decreased by approximately 42.6%, which was mainly due to only one Chinese restaurant was operated as compared to three restaurants in Previous Period;
- (2) the aggregate revenue of the three Chinese restaurants in Shenzhen, the PRC, of approximately HK\$84.8 million (Previous Period: approximately HK\$56.8 million), increased by approximately 49.2%, which was mainly due to the relaxation of COVID-19 restrictions and economy recovery after COVID-19 in Shenzhen during the Period;

During the Period, no revenues were recorded from the Thai cuisine restaurant located in Hong Kong (2022: approximately HK\$2.9 million) and the food counter inside Shanghai Freshippo store (2022: approximately HK\$18,000) as a result of the respective closure of restaurant and food counter.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK\$60.5 million for the Period, representing an increase of approximately 27.9% from approximately HK\$47.3 million for the Previous Period, which was in line with the increase in revenue during the Period. Nevertheless, the Group's overall gross profit margin remained at a similar level to approximately 64.8% (2022: approximately 63.2%).

Employee benefits expense

Employee benefits expense was approximately HK\$26.5 million for the Period (Previous Period: approximately HK\$26.5 million), which was similar to the Previous Period. Despite of the reduction of staff head counts, the employee benefits expense has remained at a similar level due to the increase of wages and allowance of the Group as compared to the Previous Period. Going forward, the Group will continue to closely monitor the cost control in respect of staff salaries, and at the same time regularly review the work allocation of the staff in order to improve the work efficiency and maintain a quality standard of service.

Depreciation

Depreciation for the Period in respect of right-of-use assets in relation to the Group's leased properties was approximately HK\$9.9 million (Previous Period: approximately HK\$16.1 million), representing a decrease of approximately 38.6% due to a decrease in the Group's leased properties from the closure of certain of the Group's restaurants during the Previous Period.

Other expenses

Other expenses mainly include, but not limited to, expenses incurred for the Group's restaurant operation, consisting of building management fee and air conditioning charges, cleaning and laundry expenses, utility expenses, service fees paid to temporary workers, advertising and promotion. For the Period, other expenses amounted to approximately HK\$19.4 million (Previous Period: approximately HK\$18.2 million), representing an increase of approximately HK\$1.1 million or 6.2% which was mainly due to the combined effects of cost control, increase in laundry expenses and staff benefits associated with the increase in revenue, and no COVID-19 rent concessions being allowed during the Period.

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

For the Period, there was no impairment loss on property, plant and equipment (Previous Period: approximately HK\$2.0 million) and right-of-use assets (Previous Period: approximately HK\$0.5 million).

Finance costs

Finance costs for the Period included approximately HK\$4.3 million (Previous Period: approximately HK\$4.3 million) in respect of interest expense on lease liabilities in relation to the Group's leased properties and bank borrowings.

Loss attributable to owners of the Company

For the Period, the Group recorded a loss attributable to owners of the Company of approximately HK\$4.1 million (Previous Period: approximately HK\$26.0 million), representing a decrease in net loss attributable to owners of the Company by approximately HK\$21.9 million as compared to the Previous Period. This was mainly due to the improved revenue from the increase of customers after the Pandemic and the reopening of the borders between Hong Kong and China.

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 the shareholders of the Company (the "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 the Shareholders, return capital to the Shareholders, issue new Shares or sell assets to reduce debt.

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

As at 30 June 2023, the Group's cash and bank balances were approximately HK\$25.0 million, representing an increase of approximately HK\$1.5 million as compared with approximately HK\$23.5 million as at 31 December 2022. The increase was mainly due to the increase in cash inflow from operations during the Period.

As at 30 June 2023, cash and bank balances of approximately HK\$25.0 million included HK\$10.6 million and HK\$14.4 million which were denominated in HK\$ and Renminbi ("RMB"), respectively.

Indebtedness and Banking Facilities

As at 30 June 2023, the Group had bank borrowings of approximately HK\$19.2 million (31 December 2022: approximately HK\$20.8 million), bearing interest rates at prime rate minus 2.5% per annum (31 December 2022: prime rate minus 2.5% per annum) and were guaranteed by the Government of the Hong Kong Special Administrative Region of the PRC and certain of the then existing and former controlling Shareholders as at 30 June 2023.

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

Commitments

As at 30 June 2023, the Group had no significant outstanding contracted capital commitments.

Charge on Assets

As at 30 June 2023, the Group did not have any charge over its assets.

Contingent Liabilities

On 31 December 2019, Excel Linker (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company received a Writ of Summons together with an indorsement of claim dated 31 December 2019 issued in the High Court of Hong Kong (the “**Excel Linker Court Action**”) by Foxhill Investments Limited as plaintiff against Excel Linker (Hong Kong) Limited as defendant. For details, please refer to the announcement titled “Inside Information – Litigation” dated 6 January 2020. A provision of HK\$11.2 million has been made in the unaudited condensed consolidated financial statements for the Period (31 December 2022: HK\$9.3 million). The Company is currently seeking legal advice in respect of the foregoing. The Company is of the view that the Excel Linker Court Action did not and will not have any material adverse impact on the ordinary operation and financial positions of the Group. To the best knowledge of the Directors, no hearing in relation to the Excel Linker Court Action has been scheduled.

Saved as disclosed above, as at 30 June 2023, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 475 employees as at 30 June 2023 (as at 30 June 2022: approximately 512 employees). The staff head count decreased of approximately 7.2% as compared to 2022 which was mainly due to the closure of the one Thai cuisine restaurant and two Chinese restaurants in Hong Kong during the Previous Period. The employee benefits expense, including Directors’ emoluments, of the Group was approximately HK\$26.5 million for both the Period and the Previous Period. 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 Company reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the share option scheme adopted by the Company on 16 June 2016. During the Period, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

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

Prospects

Due to the uncertainties of the Hong Kong and China economies and the consumer sentiment, 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 conduct market research to understand the latest customer trends and preferences and to develop and market new menu items, banquet and dining services may be required, which may place substantial burden on the Group's managerial and financial resources;
- (ii) the operation of the Group may be affected by the price of the food ingredients, especially the price of the imported food ingredients which will be affected by the fluctuating exchange rate;
- (iii) there may be labour shortage in the future and intensive competition for qualified individuals in the food and beverage industry; and
- (iv) the Hong Kong and China economies may be further worsened as a result of the unfavourable development of the China-US trade war and the Ukraine war, which would negatively affect the consumption sentiments of the general public and consequently the retail and catering sectors.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the prospectus of the Company (the "**Prospectus**").

Nonetheless, the management is optimistic that (i) the Chinese government will adopt effective policies to revitalize the economy which will benefit the Group's operation in China and Hong Kong; (ii) there will be a growth potential of the catering industry in 2024 after the recovery of economy; and (iii) the Group can succeed and enhance the Shareholders' value in the medium to long run, based on the years of experience of the Senior Management in managing Chinese restaurant business in Hong Kong and China and its business strategies as detailed below.

The Group is confident that Hong Kong's economy will gradually recover in 2024 which may also improve the consumer confidence level in Hong Kong. The reopening of the borders between Hong Kong and China will continue to help accelerating the recovery rate of economic activities in Hong Kong to pre-pandemic levels.

The Group has removed the high rental based operations in order to avoid further loss in the last year, so the Group was able to make available working capital for its other operation needs. Hence, the Group was able to improve its operating results during the Period as compared to the Previous Period.

Going forward, the Group will continue to utilise available resources to implement its business strategies, namely, steady growth and prudent expansion in Hong Kong with its multi-brand strategy, progressive expansion in the PRC market, continuing promotion of brand image and recognition through marketing initiatives, enhancement of existing restaurant facilities and strengthening of staff training aiming to attract more new customers. In addition, the Group will continue to develop the online shopping platform by putting more effort on promotion and marketing to serve its customers. The Group will also continue to review its business strategies regularly in order to make business diversification on the food and beverage sector.

The Group will also consider the expansion of its catering business into other types of cuisines and operation modes when opportunities arise, taking into account the Group's available resources, with the aim to maximize the return to the Shareholders.

Use of proceeds from the Placing

Reference is made to the Company's announcements dated 22 November, 6 December and 15 December 2022 (collectively, the "**Placing Announcements**"). The Company has successfully placed on 15 December 2022 a total of 105,100,000 new Shares under the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 24 June 2022. The net proceeds (after deducting the placing commission, professional fees and all related expenses) were approximately HK\$21.07 million. For details, please refer to the Placing Announcements.

As at 30 June 2023, the net proceeds from the Placing were applied as follows:

	Planned use of net proceeds as stated in the Placing announcement dated 15 December 2022 <i>HK\$'000</i>	Actual use of net proceeds up to 30 June 2023 <i>HK\$'000</i>
For replenishing the working capital of the Group	9,069	9,069
For repayment of debts	4,000	4,000
For developing the Group's businesses in Hong Kong and in the PRC	8,000	2,194
	<u> </u>	<u> </u>

As at 30 June 2023, approximately HK\$15.3 million out of the net proceeds from the Placing 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 by 2024.

Event after the reporting period

Saved as disclosed in the section “Change of Control” on page 22 of this announcement, the Board is not aware of any other important event affecting the Group after the Period and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions as set out in the section headed “Part 2 – Principles of good corporate governance, code provisions and recommended best practices” of the Corporate Governance Code (the “Code”) in Appendix 14 of the Listing Rules. For the Period, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the Code, except for certain deviations as specified with considered reasons for such deviations as explained below.

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

During the Period, the Company did not separate the roles of chairman of the Board (the “**Chairman**”) and chief executive officer of the Company (the “**CEO**”). Mr. Chan Chun Kit (“**Mr. Chan**”) was the Chairman and also the CEO 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 CEO 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 CEO, 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 CEO 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 and CEO 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 Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the Shares of the Company (the “**Code of Conduct**”). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the Period.

According to code provision A.3(a) of the Code of Conduct, a Director must not deal in any securities of the Company on any day on which its financial results are published and during the period of 30 days immediately preceding the publication date of the interim results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results (the “**Blackout Period**”). According to code provision B.8 of the Code of Conduct, a Director must not deal in any securities of the Company without first notifying in writing the chairman of the Company or a Director (otherwise than himself) designated by the Board for the specific purpose and receiving a dated written acknowledgement.

After the Period, and during the Blackout Period for the Company’s results announcement for the six months ended 30 June 2023, Mr. Chow Yiu Pong David (“**Mr. Chow**”), a non-executive Director, had on 10 August 2023 and 11 August 2023 disposed of, in aggregate, 610,000 Shares through Sky Gain Investments Limited, a company which Mr. Chow is interested in 37.5% of its issued share capital, which was in contravention of code provisions A.3(a) and B.8 of the Code of Conduct.

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

- communicated and reminded all the Directors, including Mr. Chow, of the Blackout Period and the restrictions on directors' dealing in the securities of the Company under the Code of Conduct; and
- recirculated the Code of Conduct to all the Directors, including Mr. Chow, and reminded them of the procedures that they should follow should they wish to deal in the Shares of the Company.

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

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

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

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

CHANGE OF CONTROL

On 28 July 2023 (the "**Completion Date**"), Kafelaku Coffee Industrial Limited ("**Kafelaku Coffee**") (a company wholly and beneficially owned by Mr. Liang Naiming ("**Mr. Liang**"), an executive Director), Bright Creator Limited ("**Bright Creator**") and Mr. Chan entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") pursuant to which, Bright Creator and Mr. Chan agreed to sell, and Kafelaku Coffee agreed to purchase, a total of 381,161,400 Shares (representing approximately 34.49% of the total issued share capital of the Company as at the date of this announcement) for a total consideration of HK\$49,550,982 at HK\$0.13 per Share. Completion of the Sale and Purchase Agreement took place on the same day. Detailed information in relation to the Sale and Purchase Agreement was set out in the announcement dated 10 August 2023 jointly issued by Kafelaku Coffee and the Company (the "**S&P Announcement**").

Immediately following the Completion Date and up to the date of this announcement, Kafelaku Coffee, Mr. Liang and parties acting in concert with any of them (the "**Offeror's Concert Group**") are interested in an aggregate of 381,161,400 Shares, representing approximately 34.49% of the total issued share capital of the Company as at the date of this announcement. Kafelaku Coffee is therefore required under Rule 26.1 of The Code on

Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong (the “**Takeovers Code**”) to make a mandatory conditional cash offer (the “**Offer**”) for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror’s Concert Group). Detailed information in relation to the Offer was set out in the S&P Announcement jointly issued by Kafelaku Coffee and the Company. The composite document to be jointly issued by Kafelaku Coffee and the Company in accordance with Rule 8.2 of the Takeovers Code will be despatched to the Shareholders in due course.

SHARE OPTION SCHEME

The share option scheme of the Company (the “**Share Option Scheme**”) was adopted pursuant to a resolution passed by the Shareholders on 16 June 2016 for the primary purpose of providing eligible participants an opportunity to have a personal stake in the Company and to motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the Share Option Scheme include any employees, any executives, non-executive Directors (including independent non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Share Option Scheme became effective on 30 June 2016 (the “**Listing Date**”) and, unless otherwise cancelled or amended, will remain in force for 10 years commencing on the Listing Date, the principal terms of which were summarised in the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus.

No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the Period and there were no outstanding share options under the Share Option Scheme as at 30 June 2023.

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 Code. The Audit Committee reviews, amongst others, the financial information of the Group, the relationship with and terms of appointment of the external auditors, and the Company’s financial reporting system, internal control system and risk management system.

The Audit Committee consists of three independent non-executive Directors, chaired by Mr. Lee Cheung Yuet Horace and the other two members are Mr. Chan Ming Kei and Mr. Kan Sze King Kenneth.

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

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

Hong Kong, 30 August 2023

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