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利·寶·閣

Li Bao Ge Group Limited

利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8102)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the “Directors”) of Li Bao Ge Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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 2017, together with the comparative figures for the previous financial year ended 31 December 2016 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\$307.0 million for the year ended 31 December 2017, representing an increase of approximately 10.3% as compared with the year ended 31 December 2016.
- The profit attributable to owners of the Company amounted to approximately HK\$23.2 million for the year ended 31 December 2017, representing an increase of approximately 104.3% as compared with the year ended 31 December 2016.
- A final dividend for the year ended 31 December 2017 of HK1.50 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	
		2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	6	307,001	278,429
Other income	6	2,322	1,546
Other gains and losses		(6)	(179)
Cost of materials consumed		(91,066)	(81,846)
Employee benefits expense		(65,779)	(59,812)
Depreciation		(12,107)	(13,327)
Other expenses	7	(109,690)	(100,367)
Operating profit		30,675	24,444
Listing expenses		–	(7,507)
Finance costs	8	(566)	(789)
Profit before income tax		30,109	16,148
Income tax expense	9	(6,921)	(4,800)
Profit for the year attributable to owners of the Company		23,188	11,348
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		1,219	(1,865)
Total comprehensive income for the year attributable to owners of the Company		24,407	9,483
Basis earnings per share	11	HK cent 2.90	HK cent 1.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2017	2016
	Notes	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		54,934	30,536
Rental deposits		17,035	15,420
Deposits placed for life insurance policies		5,742	5,457
Deposits paid for property, plant and equipment		5,578	–
Deferred tax assets		6,050	5,179
		<u>89,339</u>	<u>56,592</u>
Current assets			
Inventories		12,434	9,494
Trade receivables	12	9,474	3,797
Deposits, prepayments and other receivables		8,406	5,373
Current tax recoverable		770	1,518
Pledged bank deposits		11,001	14,000
Cash and cash equivalents		67,494	83,587
		<u>109,579</u>	<u>117,769</u>
Total assets		<u>198,918</u>	<u>174,361</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	8,000	8,000
Reserves		128,398	110,791
		<u>136,398</u>	<u>118,791</u>
Total equity		<u>136,398</u>	<u>118,791</u>

		As at 31 December	
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Deposits received		69	180
Obligations under finance leases	<i>16</i>	262	454
Provision for reinstatement costs		3,939	3,011
		<hr/> 4,270 <hr/>	<hr/> 3,645 <hr/>
Current liabilities			
Trade payables	<i>14</i>	9,225	8,648
Accruals, provisions and deposits received		32,108	21,285
Bank borrowings	<i>15</i>	13,776	19,230
Obligations under finance leases	<i>16</i>	192	235
Current tax payable		2,949	2,527
		<hr/> 58,250 <hr/>	<hr/> 51,925 <hr/>
Total liabilities		<hr/> 62,520 <hr/>	<hr/> 55,570 <hr/>
Total equity and liabilities		<hr/> 198,918 <hr/>	<hr/> 174,361 <hr/>
Net current assets		<hr/> 51,329 <hr/>	<hr/> 65,844 <hr/>
Total assets less current liabilities		<hr/> 140,668 <hr/>	<hr/> 122,436 <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Other reserves HK\$'000	Exchange translation reserve HK\$'000	Retained profits HK\$'000	
Balance as at 1 January 2016	–	–	78	34,618	(281)	4,059	38,474
Profit for the year	–	–	–	–	–	11,348	11,348
Currency translation differences	–	–	–	–	(1,865)	–	(1,865)
Total comprehensive income/(expense) for the year	–	–	–	–	(1,865)	11,348	9,483
Arising from reorganisation	–	–	(78)	78	–	–	–
Issue of new shares by placing (<i>note 13</i>)	2,000	69,000	–	–	–	–	71,000
Capitalisation issue of shares (<i>note 13</i>)	6,000	(6,000)	–	–	–	–	–
Expenses incurred in connection with issue of new shares	–	(7,866)	–	–	–	–	(7,866)
Waiver of amounts due to controlling shareholders	–	–	–	7,700	–	–	7,700
Balance as at 31 December 2016	<u>8,000</u>	<u>55,134</u>	<u>–</u>	<u>42,396</u>	<u>(2,146)</u>	<u>15,407</u>	<u>118,791</u>
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
Total comprehensive income for the year	–	–	–	–	1,219	23,188	24,407
Dividend paid (<i>note 10</i>)	–	–	–	–	–	(6,800)	(6,800)
Balance as at 31 December 2017	<u><u>8,000</u></u>	<u><u>55,134</u></u>	<u><u>–</u></u>	<u><u>42,396</u></u>	<u><u>(927)</u></u>	<u><u>31,795</u></u>	<u><u>136,398</u></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 are listed on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Listing”) since 30 June 2016 (the “Listing Date”).

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

Pursuant to a reorganisation scheme to rationalise the structure of the Group in the preparation for the Listing (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 16 June 2016.

Details of the Reorganisation are set out in the section headed “History, Reorganisation and Development” of the Prospectus.

Before and after the Reorganisation, there was a continuation of the risks and benefits to the Controlling Shareholder and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. Before and after the Reorganisation, there is also no change in management of the Group and ultimate owners of the Group remain the same. Accordingly, the consolidated statements of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2016 include the results and cash flows of the companies now comprising the Group which have been prepared by applying the principles of merger accounting, as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the year ended 31 December 2016, or since their respective dates of acquisition or incorporation, whichever is the shorter period.

2 STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the year ended 31 December 2017 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 and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM 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 and revised HKFRS 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 adoption of the New HKFRSs had no material impact on the Group's consolidated financial statements. The Group had not early adopted any new or revised standards or interpretations that have been issued but are not yet effective.

4 ESTIMATES

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

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the combined financial statements for the year ended 31 December 2016.

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 Chinese restaurants and no operating segment information is presented.

For the years ended 31 December 2016 and 2017, 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 2016 and 2017 and certain non-current assets information as at 31 December 2016 and 2017 by geographic area.

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Revenue from external customers		
Hong Kong	186,049	188,826
Mainland China	120,952	89,603
	<u>307,001</u>	<u>278,429</u>

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

	31 December 2017 HK\$'000	31 December 2016 HK\$'000
Non-current assets		
Hong Kong	13,869	20,491
Mainland China	41,065	10,045
	<u>54,934</u>	<u>30,536</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

Revenue from the operation of Chinese restaurants and other income during the years ended 31 December 2016 and 2017 are as follows:

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Revenue		
Revenue from Chinese restaurant operations	305,533	278,429
Revenue from sale of food ingredients	1,468	–
	<u>307,001</u>	<u>278,429</u>
Other income		
Interest income on short-term bank deposits	342	60
Interest income from deposits placed for life insurance policies	235	229
Forfeiture of deposits received	113	33
Government incentive	1,396	–
Miscellaneous income	236	1,224
	<u>2,322</u>	<u>1,546</u>
Total revenue and other income	<u>309,323</u>	<u>279,975</u>
Total interest income on financial assets not at fair value through profit or loss	<u>577</u>	<u>289</u>

7 OTHER EXPENSES

Other expenses include the following items:

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Auditor's remuneration		
– audit services	560	519
– non audit services	145	90
Operating lease expenses		
– Normal rent for premises	44,371	40,985
– Contingent rent for premises*	6,959	4,338
Underprovision of reinstatement costs	–	129
	<u> </u>	<u> </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	
	2017	2016
	HK\$'000	HK\$'000
Interest expense on bank borrowings	540	752
Finance charges on obligations under finance leases	26	37
	<u> </u>	<u> </u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>566</u>	<u>789</u>

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Current tax		
Current tax on profits for the year		
– Hong Kong	2,215	2,513
– The PRC	5,508	2,802
Overprovided in prior year	(46)	(40)
	<u>7,677</u>	<u>5,275</u>
Deferred tax		
Origination and reversal of temporary differences	(798)	(475)
Underprovided in prior year	42	–
	<u>(756)</u>	<u>(475)</u>
Income tax expense	<u>6,921</u>	<u>4,800</u>

Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profits for the subsidiaries of the Group incorporated in Hong Kong during the years ended 31 December 2016 and 2017.

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 2016 and 2017.

10 DIVIDENDS

Final dividends of HK0.85 cents per share were declared and paid during the year ended 31 December 2017. Pursuant to the board of Directors' meeting on 12 February 2018, the Directors recommended to declare the final dividend for the year ended 31 December 2017 of HK1.50 cents per share totaling HK\$12,000,000. Such recommendation is to be approved by the Shareholders at the forthcoming annual general meeting of the Company to be held on Tuesday, 29 May 2018 (the "AGM"). Dividend declared after the end of the reporting period is not recognised as a liability at the end of the reporting period.

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	
	2017 HK\$'000	2016 HK\$'000
Earnings		
Profit for the year attributable to the owners of the Company	<u>23,188</u>	<u>11,348</u>
Number of shares		
Weighted average number of shares for the purpose of calculating basis earnings per share	<u>800,000,000</u>	<u>701,639,000</u>

The number of shares for the year ended 31 December 2016 used for the purpose of calculating basis earnings per share has been retrospectively adjusted for the issue of shares during the reorganisation and capitalisation issue as disclosed in note 13 as if the shares had been in issue throughout the year.

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 2016 and 2017.

12 TRADE RECEIVABLES

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

	31 December	31 December
	2017 HK\$'000	2016 HK\$'000
0 to 30 days	8,289	3,005
31 to 60 days	1,092	470
61 to 90 days	29	105
Over 90 days	<u>64</u>	<u>217</u>
	<u>9,474</u>	<u>3,797</u>

As at 31 December 2016 and 2017, no trade receivables were impaired. No allowance for impairment of trade receivables was made as at 31 December 2016 and 2017.

13 SHARE CAPITAL

	<i>Note</i>	Number of Ordinary shares	Nominal value of Ordinary share HK\$'000
Authorised:			
On incorporation		38,000,000	380
Increased on 16 June 2016		1,962,000,000	19,620
Ordinary shares of HK\$0.01 each as at 31 December 2016 and 2017		<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:			
As at 1 September 2015 (date of incorporation)	<i>(a)</i>	1	*
Issue of shares during reorganisation	<i>(b)</i>	9,999	*
Issue of shares by capitalisation of share premium account	<i>(c)</i>	599,990,000	6,000
Issue of shares upon placing	<i>(d)</i>	200,000,000	2,000
As at 31 December 2016 and 2017		<u>800,000,000</u>	<u>8,000</u>

* Represents amount less than HK\$1,000

- (a) The Company was incorporated on 1 September 2015 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares with par value of HK\$0.01 each. On the date of incorporation, 1 ordinary share was subscribed by a nominee company at nil consideration, which was then transferred to Zhao Tian Ventures Limited (“Zhao Tian”) on the same date.
- (b) On 16 June 2016, Zhao Tian, Sincere Expand Limited (“Sincere”) and Universal Palm Trading Limited (“Universal”) (as vendors) and the Company (as purchaser) entered into a sale and purchase agreement pursuant to which the Company acquired 10,000 shares in Zhen Tong, representing its entire issued share capital and in consideration thereof, (i) one nil-paid Share held by Zhao Tian was credited as fully-paid; and (ii) 8,486 Shares, 1,062 Shares and 451 Shares were allotted to Zhao Tian, Sincere and Universal respectively.
- (c) On 16 June 2016, the Company capitalised HK\$5,999,900 by crediting the share premium account of the Company and applied such sum to pay up in full at par a total of 599,990,000 shares for allotment and issue to the then shareholders in proportion to their respectively shareholdings.
- (d) On 29 June 2016, the Company issued 200,000,000 new shares with nominal value of HK\$0.01 each for the placing at the offer price of HK\$0.355 each.

14 TRADE PAYABLES

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

	31 December 2017 HK\$'000	31 December 2016 HK\$'000
0 to 30 days	8,248	7,669
31 to 60 days	706	880
61 to 90 days	47	21
Over 90 days	224	78
	<u>9,225</u>	<u>8,648</u>

15 BANK BORROWINGS

	31 December 2017 HK\$'000	31 December 2016 HK\$'000
Bank borrowings due for repayment within one year – secured	8,218	10,671
Bank borrowings due for repayment after one year which contain a repayment on demand clause – secured	5,558	8,559
	13,776	19,230

As at 31 December 2016 and 2017, the banking facilities of the Group were secured by bank deposits of approximately HK\$14,000,000 and HK\$11,001,000 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 2017 HK\$'000	31 December 2016 HK\$'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	208	260
Later than 1 year and no later than 5 years	270	478
	478	738
Future finance charges on finance leases	(24)	(49)
	454	689
The present value of finance lease liabilities is as follows:		
No later than 1 year	192	235
Later than 1 year and no later than 5 years	262	454
	454	689

As at 31 December 2016 and 2017, finance lease liabilities were secured by motor vehicles.

17 CAPITAL COMMITMENTS

As at 31 December 2017, 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\$1.8 million (2016: HK\$0.8 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 two and ten years, and majority of lease arrangements are renewable at the end of the lease period with either pre-set increment rate or market rate to be agreed with 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 2017 HK\$'000	31 December 2016 HK\$'000
No later than 1 year	48,367	52,093
Later than 1 year and no later than 5 years	94,340	80,952
Later than 5 years	51,486	60,928
	194,193	193,973

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 current and prior years:

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Rental expenses paid to Richfield Develop Limited (<i>note</i>)	214	71

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 2017, the Group operated four 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)”. 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 2017, the Group had five restaurants in Hong Kong, two of which were located in Sheung Wan (i.e. the Sheung Wan Restaurant and the Beijing House Restaurant) and the remaining three were located in Tsim Sha Tsui (i.e. The One Restaurant), Causeway Bay (i.e. the CWB Restaurant) and Olympic City (i.e. the Olympic Restaurant), respectively. The Group’s two 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.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the Group recorded a total revenue of approximately HK\$307.0 million, representing an increase of approximately 10.3% as compared to approximately HK\$278.4 million for the year ended 31 December 2016.

The Group’s total revenue for the year ended 31 December 2017 comprised the aggregate revenue of the five restaurants in Hong Kong of approximately HK\$184.5 million (2016: approximately HK\$188.8 million) and the revenue of the two restaurants in Shenzhen of approximately HK\$121.0 million (2016: one restaurant of approximately HK\$89.6 million); as well as revenue from sales of food ingredients of approximately HK\$1.5 million (2016: nil).

The aggregate revenue of the Group’s restaurants in Hong Kong for the year ended 31 December 2017 had moderately decreased by approximately 2.2% as compared to the year ended 31 December 2016, which was mainly due to the intensifying competition of the catering industry. On the other hand, the increase in revenue of the Group’s restaurants in Shenzhen by approximately 35.0% over the year was mainly due to the continued growth of the Cantonese restaurant industry in Shenzhen, the PRC, which boosted the revenue of the Shenzhen Restaurant from approximately HK\$89.6 million for the year ended 31 December 2016 to approximately HK\$104.2 million for the year ended 31 December 2017, as well as the revenue contribution of approximately HK\$16.8 million from the Shenzhen Uniwalk Restaurant which was newly opened in October 2017.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK\$215.9 million for the year ended 31 December 2017, representing an increase of approximately 9.8% from approximately HK\$196.6 million for the year ended 31 December 2016, which was in line with the increase in revenue during the year. Besides, the Group's overall gross profit margin slightly decreased from approximately 70.6% for the year ended 31 December 2016 to approximately 70.3% for the year ended 31 December 2017, which was mainly due to the increase in the cost of food ingredients purchased during the year as compared to 2016.

Employee benefits expense

Employee benefits expense was approximately HK\$65.8 million for the year ended 31 December 2017 (2016: approximately HK\$59.8 million), representing an increase of approximately 10.0% as compared to 2016 which was mainly due to the addition of workforce for the newly opened Shenzhen Uniwalk Restaurant. Thanks to the Group's enhanced staff cost control measures, its restaurant staff costs (excluding that of the Shenzhen Uniwalk Restaurant) have gently decreased as compared to the last year. 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 high 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 2017, other expenses amounted to approximately HK\$109.7 million (2016: HK\$100.4 million), representing an increase of approximately 9.3% which was mainly due to (i) the increase in legal and professional fees by approximately HK\$0.9 million upon the listing of the Company; (ii) rental increment of approximately HK\$3.3 million, mainly in accordance with the terms of the tenancy agreements of the Group's restaurant premises; and (iii) the incurring of rental expenses of approximately HK\$2.5 million for the Shenzhen Uniwalk Restaurant which was newly opened in October 2017.

Profit attributable to owners of the Company

For the year ended 31 December 2017, the Group's profit attributable to owners of the Company was approximately HK\$23.2 million, representing an increase of approximately HK\$11.8 million or 104.3% from approximately HK\$11.3 million for the year ended 31 December 2016. Such increase was mainly due to the combined net effects of (i) the operating profit of the Shenzhen Restaurant significantly increased by approximately HK\$10.3 million as compared with the preceding financial year, mainly as a result of the increase in revenue and hence the gross profit generated; (ii) the overall decrease in operating profit of the Group's restaurant operations in Hong Kong by approximately HK\$4.1 million mainly due to the overall decline in revenue as well as rental increment; (iii) the Group incurred listing expenses of approximately HK\$7.5 million for the year ended 31 December 2016 while there was no such expenses recorded for the year; and (iv) the increase in income tax expense by approximately HK\$2.1 million as compared with the preceding financial year.

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. Except for the use of the proceeds from the listing of the shares of the Company on the GEM of the Stock Exchange (the "**Listing**") for specific purposes, the Group generally finances its operations with internally generated cash flows and bank facilities for its other capital requirements.

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 2017, was to maintain the gearing ratio at an acceptable level.

As at 31 December 2017, cash and cash equivalents and restricted bank deposits amounted to approximately HK\$78.5 million, of which approximately HK\$54.2 million and HK\$24.3 million were denominated in Hong Kong dollars ("**HK\$**") and Renminbi ("**RMB**"), respectively.

Indebtedness and Banking Facilities

As at 31 December 2017, the Group had bank borrowings of approximately HK\$13.8 million, which were all denominated in HK\$, bearing interest rates ranging from Hong Kong Interbank Offer Rate ("**HIBOR**") plus 2.0% to HIBOR plus 3.5% per annum and were secured by pledged bank deposits of approximately HK\$11.0 million.

As at 31 December 2017, the Group's gearing ratio was approximately 10.4%, which is calculated based on the interest-bearing debts divided by total equity attributable to owners of the Company as at 31 December 2017 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 2017 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 2017, the Group had not used any financial instruments for hedging purposes.

Securities in Issue

As at 31 December 2017, 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 2017.

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

On 13 February 2017, Keen Nation Limited, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with Mr. Tsang Kwok Hing, an independent third party of the Company, in relation to the acquisition of 60% of the issued share capital in Profit Shiner Investment Limited, which was engaged in the operation of a Thai cuisine restaurant in Hong Kong (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. Please refer to the Company’s announcements dated 13 February 2017, 17 February 2017 and 31 May 2017, respectively, for further details.

Save as disclosed above, there was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2017. Save as disclosed in this announcement, there was no plan for material investment or capital assets as at 31 December 2017.

Capital Commitments

As at 31 December 2017, the Group had outstanding contracted capital commitments of approximately HK\$1.8 million in respect of purchase of property, plant and equipment.

Charge on Assets

As at 31 December 2017, the Group pledged its bank deposits of approximately HK\$11.0 million as securities for the Group’s bank borrowings of approximately HK\$13.8 million. Save as disclosed above, the Group did not have any charge over its assets.

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 510 employees as at 31 December 2017. The employee benefits expense, including Directors’ emoluments, of the Group were approximately HK\$65.8 million for the year ended 31 December 2017 (2016: HK\$59.8 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 2017, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Directors recommend the payment of a final dividend of HK1.50 cents per Share for the year ended 31 December 2017 (2016: HK0.85 cents per Share), to the Shareholders whose names appear on the register of members of the Company on Wednesday, 6 June 2018, subject to the approval by the Shareholders at the forthcoming AGM to be held on Tuesday, 29 May 2018 and in compliance with the laws of the Cayman Islands and other relevant rules and regulations.

Prospects

The successful Listing marks a major milestone as well as a new chapter 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 operations of the Shenzhen Uniwalk Restaurant and the Thai Restaurant, which were opened in October 2017 and January 2018 respectively, are expected to be gradually put on track. Although the Shenzhen Uniwalk Restaurant recorded certain operating profit while the Thai Restaurant incurred pre-operating expenses during the year ended 31 December 2017, the Directors consider that their financial performance would be improved in the forthcoming year.

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. 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 2017:

	Business objectives up to 31 December 2017 as stated in the Prospectus	Actual business progress up to 31 December 2017
1.	Progressive expansion in the PRC market	<p>The Group planned to open two restaurants serving Cantonese cuisine with a focus on the mid-to-high end income group during 2017</p> <p>(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.</p> <p>(ii) The restaurant premises of the Shenzhen Uniwalk Restaurant was handed over in March 2017. The restaurant has commenced operation in October 2017.</p> <p>(iii) The total cost incurred for renovation and acquisition of equipment for the Shenzhen Uniwalk Restaurant was approximately HK\$35.9 million. The excess over the budgeted amount of approximately HK\$28.0 million was financed by the internal resources of the Group.</p>
2.	Enhancement of existing restaurant facilities	Refurbishment and acquisition, upgrading or replacement of existing equipment and facilities
3.	Enhancement of marketing and promotions	<p>The refurbishment, upgrading and replacement of existing equipment facilities for The One Restaurant had been completed.</p> <p>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.</p>

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 2017, the net proceeds from the placing were applied as follows:

	Planned use of proceeds as stated in the Prospectus up to 31 December 2017 HK\$'000	Actual use of proceeds up to 31 December 2017 HK\$'000
Progressive expansion in the PRC market	41,000	28,000
Enhancement of existing restaurant facilities	1,500	1,500
Enhancement of marketing and promotions	3,000	3,000
	<u>45,500</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 2017, 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 2017

A new restaurant named “LA MAISON D' ELEPHANT (象屋)” (the “**Thai Restaurant**”) which is located at Ping An International Finance Centre, Futian District, Shenzhen, China, was opened in January 2018. The Group, through establishing the Thai Restaurant which will specialise in serving Thai cuisine, wishes to diversify its restaurant business and customer base as well as to expand its market share in the Mainland China. The relevant funding for the Thai Restaurant is satisfied by the Group's internal resources.

Save as disclosed in this announcement, the Board is not aware of any important event requiring disclosure that has been taken place subsequent to 31 December 2017 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 GEM Listing Rules from time to time) after receipt of the notice from Mr. Chan; and (ii) that so long as he holds any beneficially interest in the Li Jia Cha Chaan Teng, he will procure that the Li Jia Cha Chaan Teng will not engage in any business that will or will likely compete with the Group's business.

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

Hong Wo Kok Restaurant (康和閣酒家)

As at the date of this announcement, Mr. Ho, one of the Controlling Shareholders, held 80% of the interest in the company which operates a Chinese restaurant named "Hong Wo Kok Restaurant" located in Hung Hom, Kowloon, Hong Kong (the "**Hung Hom Restaurant**"). The Hung Hom Restaurant is a Chinese restaurant that serves Chinese cuisine 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 Hung Hom Restaurant 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 addition, the Directors confirm that the Group has no present intention to acquire the Hung Hom Restaurant in near future.

Mr. Ho has undertaken to the Group that as long as he retains any equity interest in the Hung Hom Restaurant, 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) and Prince Noodles Shop (太子牛腩粉麵)

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 and a noodles shop named Prince Noodles Shop (太子牛腩粉麵) (the “**Noodles Shop**”) located in Causeway Bay, Hong Kong as a sole proprietor. 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. The Noodles Shop is a Hong Kong-style restaurant that serves Cantonese noodles in a casual environment which commenced business in March 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 Noodles Shop 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 and the Noodles Shop in near future.

Ms. Tsui Y. Y. has undertaken to the Group that as long as she retains any interest in the Prince Café and the Noodles Shop, 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 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 and the exercise of Right of First Refusal, please refer to the announcements of the Company dated 13 February 2017, 17 February 2017 and 31 May 2017, respectively.

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 from the Listing Date to 31 December 2017. 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 2017, except for certain deviations as specified with considered reasons for such deviations as explained below.

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

From the Listing Date to 31 December 2017, 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 Rules 5.48 to 5.67 of the GEM 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 year ended 31 December 2017.

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 2017. The Company did not redeem any of its listed securities during the year ended 31 December 2017.

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 2017 and there were no outstanding share options under the Share Option Scheme as at 31 December 2017.

INTERESTS OF THE COMPLIANCE ADVISOR

As at 31 December 2017, as notified by the Company’s compliance adviser, Ample Capital Limited (the “**Compliance Advisor**”), except for the compliance adviser agreement entered into between the Company and the Compliance Advisor dated 20 June 2016, neither the Compliance Advisor nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held at Beijing House, which is located at 2/F, Infinitus Plaza, 199 Des Voeux Road Central, Central, Hong Kong on Tuesday, 29 May 2018 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 Thursday, 24 May 2018 to Tuesday, 29 May 2018, 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 Wednesday, 23 May 2018.

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 Wednesday, 6 June 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 4 June 2018 to Wednesday, 6 June 2018, 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 Friday, 1 June 2018. The payment of final dividend will be made on or about Wednesday, 27 June 2018.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The Company has established the Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the CG Code. The Audit Committee reviews, amongst others, the financial information of the Group, the relationship with and terms of appointment of the external auditors, and the Company's financial reporting system, internal control system and risk management system.

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

The audited consolidated financial statements of the Group for the year ended 31 December 2017 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 2017 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.hkgem.com) and the Company (www.starofcanton.com.hk). The annual report of the Company for the year ended 31 December 2017 containing all the information required by the GEM 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, 12 February 2018

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

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