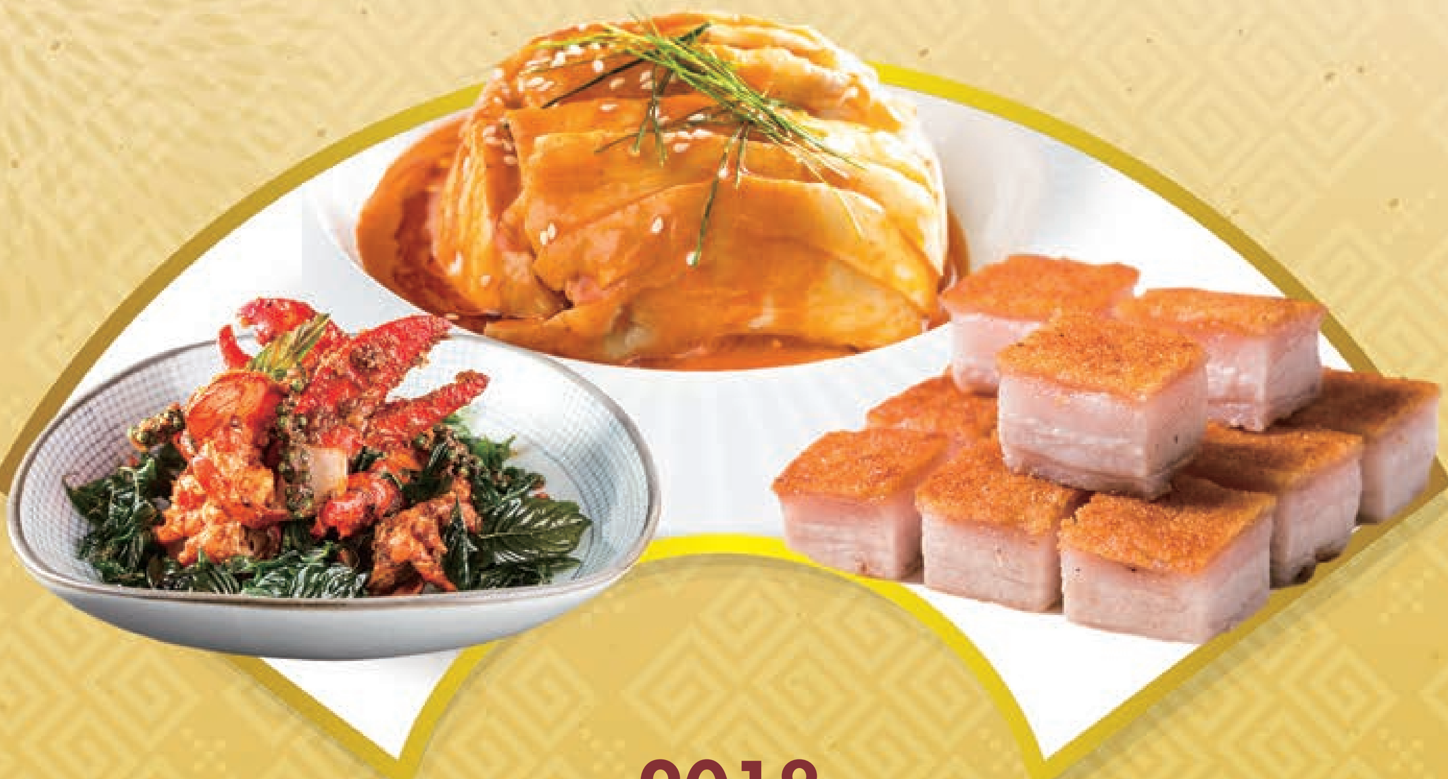
利·寶·閣

# 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



# 2018
# Annual Report

# Contents

# Corporate Information

## Directors

### Executive Directors:

Mr. Chan Chun Kit *(Chairman of the Board and Chief Executive Officer)*
Mr. Lam Kwok Leung Peter
Mr. Wong Ka Wai
Mr. Chow Yiu Pong David

### Independent Non-executive Directors:

Mr. Liu Chi Keung
Prof. Wong Lung Tak Patrick
Mr. Tam Tak Kei Raymond

## Audit Committee

Prof. Wong Lung Tak Patrick *(Chairman)*
Mr. Liu Chi Keung
Mr. Tam Tak Kei Raymond

## Remuneration Committee

Mr. Tam Tak Kei Raymond *(Chairman)*
Mr. Chan Chun Kit
Mr. Liu Chi Keung

## Nomination Committee

Mr. Chan Chun Kit *(Chairman)*
Mr. Liu Chi Keung
Mr. Tam Tak Kei Raymond

## Legal Compliance Committee

Prof. Wong Lung Tak Patrick *(Chairman)*
Mr. Liu Chi Keung
Mr. Tam Tak Kei Raymond
Mr. Lam Kwok Leung Peter
Ms. Hui Wai Shu Jessica *CPA*

## Company Secretary

Ms. Hui Wai Shu Jessica *CPA*

## Compliance Officer

Mr. Lam Kwok Leung Peter

## Authorised Representatives

Mr. Chan Chun Kit
Mr. Lam Kwok Leung Peter

## Registered Office

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

## Head Office And Principal Place Of Business In Hong Kong

Room 2702, Tower 2
Kowloon Commerce Centre
No. 51 Kwai Cheong Road
Kwai Chung, New Territories
Hong Kong

## Principal Share Registrar And Transfer Office In The Cayman Islands

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

## Branch Share Registrar And Transfer Office In Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## Compliance Adviser

Ample Capital Limited

## Legal Adviser To The Company As To Hong Kong Law

Loong & Yeung

## Principal Bankers

Hang Seng Bank
Bank of China (Hong Kong)
China CITIC Bank

## Auditor

Ting Ho Kwan & Chan CPA Limited

## Stock Code

1869

## Company's Website

http://www.starofcanton.com.hk

# Chairman's Statement

On behalf of 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"), I hereby present to the shareholders of the Company (the "Shareholders") the audited consolidated results of the Group for the year ended 31 December 2018 together with the comparative figures for the corresponding period in 2017 as set out below for their consideration. 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").

## Turnover and Profit

For the year ended 31 December 2018, the Group recorded a total revenue of approximately HK$360.5 million and profit attributable to owners of the Company of approximately HK$2.3 million, representing an increase of approximately 17.4% and a decrease of 90.2%, respectively, as compared to the previous year. The increase in total revenue was mainly due to the full-year revenue contribution from Shenzhen Uniwalk Star of Canton in 2018, which was opened in Baoan District, Shenzhen, the People's Republic of China (the "PRC") in the fourth quarter of 2017. However, the Group's gross profit margin shrank due to food cost inflation during the year, and in particular, the further increase in price of frozen meats upon the outbreak of African swine fever in China since August 2018, leading to a substantial decrease in operating profit.

## Business Review

During the year 2018 under review, the Group operated five Star of Canton Restaurants (including Kwun Tong Star of Canton which was opened in December 2018) and one Beijing House Restaurant in Hong Kong, and two Star of Canton Restaurants in the Futian District and Baoan District in Shenzhen. In addition, the Group also newly opened a Thai cuisine restaurant – "La Maison D'Elephant (象屋)" in Shenzhen in January 2018, with a view to diversifying the Group's restaurant business and customer base. Although the Group was faced with various challenges in the business environment in Hong Kong, including the intensified competition of the catering industry and increase of wage costs in the past year, coupled with the impact of the downturn of economy and the China-US trade war on the consumption sentiments of individual and corporate customers, the Group was able to maintain the stable development of the overall business in Hong Kong as all staff worked closely together. In addition, thanks to the continuous development of the Cantonese restaurant industry in Shenzhen in recent years, the Group's restaurant operations in Shenzhen recorded a gratifying double-digit growth in turnover.

# Chairman's Statement

## Corporate Strategy and Future Outlook

The Group continues to adhere to promoting the brands of "Star of Canton" and "Beijing House". The Group firmly believes that, only through selecting high-quality ingredients, making fresh food and providing dishes which meet the broad masses of customers, can it attract customers of different age groups. The Group has always been using this philosophy of operations to gather a large number of regular customers and attract new customers. The Group will continue to develop in this way.

As for promotion, the Group will continue to engage the celebrity, Ms. Suzie Wong, as its spokesperson. The Group believes that her persistence in food quality and great interest in trying new dishes would effectively promote the delicacies of the Group and further develops the customer base.

Besides, the Shenzhen Star of Canton Restaurant has been operating in the PRC market for more than five years, and has been recognized by various Shenzhen media and the well-known commentary website "dianping.com" as one of the most popular restaurants or a recommended restaurant for a few consecutive years. We are going to exploit this advantage to the fullest extent. As part of our business plan, we opened Shenzhen Uniwalk Star of Canton under the brand of "Star of Canton" in a new shopping mall "Uniwalk" in Shenzhen. We believe the new Shenzhen Star of Canton restaurant can bring synergy for the Group's business in Shenzhen through the branding effect. We are optimistic towards the profitability of the Group's PRC business.

Going forward, the Group believes that there is huge room for its business in Shenzhen to grow. Also, the Group will continue to develop its brands "Star of Canton" and "Beijing House" in Hong Kong and Shenzhen, as well as other new brands for other cuisines, while explore consumer preferences for different cuisines in different regions and identifying ideal locations for setting up more Chinese and non-Chinese restaurants in order to increase its market share. At present, food delivery services in the PRC are experiencing rapid development, and the Group will try to collaborate with relevant institutions in this regard, aiming to diversify sources of revenue and enhance the recognition of the Group's brands among customers. In the long run, the Group aims to become a reputable multi-brand restaurant group.

## Appreciation

I would like to take this opportunity to express my gratitude to all our Shareholders, members of the Board, the senior management and staff of all levels for their dedication and efforts over the years. In addition, on behalf of the Board, I would also like to express our sincerest thanks to all our customers, suppliers, and business partners for their continuous support.

**Chan Chun Kit**
*Chairman and Executive Director*

Hong Kong, 25 March 2019

# Management Discussion and Analysis

## Business and Operational Review

The Group is a Chinese restaurant group recognised for delivering Cantonese cuisine and Chinese banquet and dining services. It also offers Thai cuisine under a newly-established brand.

### Restaurants Operation

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

As at 31 December 2018, the Group had six restaurants in Hong Kong, two of which were located in Sheung Wan (i.e. the Sheung Wan Restaurant and the Beijing House Restaurant) and the remaining four were located in Tsim Sha Tsui (i.e. The One Restaurant), Causeway Bay (i.e. the CWB Restaurant), Olympian City (i.e. the Olympian Restaurant) and Kwun Tong (i.e. the Kwun Tong Restaurant), respectively. The Group's two Chinese restaurants in Shenzhen, the PRC were located in Futian District (i.e. the Shenzhen Restaurant) and Baoan District (i.e. the Shenzhen Uniwalk Restaurant) respectively, while the Thai cuisine restaurant (i.e. the "Thai Restaurant") was located in Futian District.

## Financial Review

### Revenue

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

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

# Management Discussion and Analysis

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

## Gross profit and gross profit margin

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

## Employee benefits expense

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

# Management Discussion and Analysis

## Other expenses

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

## Profit attributable to owners of the Company

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

## Liquidity, financial resources and capital structure

### *Capital Structure*

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

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

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

# Management Discussion and Analysis

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

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

### *Indebtedness and Banking Facilities*

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

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

### *Foreign Exchange Exposure*

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

## Securities in Issue

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

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

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

## Capital Commitments

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

# Management Discussion and Analysis

## Charge on Assets

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

## Contingent Liabilities

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

## Employees and Remuneration Policies

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

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

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

## Dividend

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

# Management Discussion and Analysis

## Prospects

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

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

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

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

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

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

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

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

# Management Discussion and Analysis

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

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

# Management Discussion and Analysis

## Comparison of Business Plan with Actual Business Progress

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

| | | Business objectives up to 31 December 2018 as stated in the Prospectus | Actual business progress up to 31 December 2018 |
|---|---|---|---|
| 1. | Progressive expansion in the PRC market | The Group planned to open two restaurants serving Cantonese cuisine with a focus on the mid-to-high end income group during 2017 | (i) In respect of the Shenzhen One Avenue Restaurant, the Group was pending the handover of the restaurant premises by the landlord upon completion of construction of the shopping mall regarding the new restaurant. It is currently expected that the Shenzhen One Avenue Restaurant will be opened in the fourth quarter of 2019.<br><br>(ii) The restaurant premises of the Shenzhen Uniwalk Restaurant was handed over in March 2017. The restaurant has commenced operation in October 2017.<br><br>(iii) The total cost incurred for renovation and acquisition of equipment for the Shenzhen Uniwalk Restaurant was approximately HK$34.6 million (RMB30.4 million). The excess over the budgeted amount of approximately HK$28.0 million was financed by the internal resources of the Group. |
| 2. | Enhancement of existing restaurant facilities | Refurbishment and acquisition, upgrading or replacement of existing equipment and facilities | The refurbishment, upgrading and replacement of existing equipment facilities for The One Restaurant had been completed. |
| 3. | Enhancement of marketing and promotions | Launch of marketing activities for promoting brand image | The promotion of wedding banquet services had been launched through the participation in wedding exhibitions and other marketing activities including meal sets promotion through media, websites' cash coupons and bank credit card promotion. |

# Management Discussion and Analysis

## Use of proceeds from the Listing

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

As at 31 December 2018, the net proceeds from the placing were applied as follows:

| | **Planned use of proceeds as stated in the Prospectus up to 31 December 2018** | Actual use of proceeds up to 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Progressive expansion in the PRC market | **48,000** | 28,000 |
| Enhancement of existing restaurant facilities | **1,500** | 1,500 |
| Enhancement of marketing and promotions | **3,000** | 3,000 |

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

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

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

# Environmental, Social and Governance Report

## Introduction

Li Bao Ge Group Limited (the "**Company**"), together with its subsidiaries (collectively the "**Group**"), owns, operates and manages a group of Chinese restaurants recognized for delivering quality Cantonese cuisine and Chinese banquet and dining services. During the financial year ended 31 December 2018, the Group operated seven full-service Chinese restaurants in Hong Kong and Shenzhen, the People's Republic of China (the "**PRC**") under the brands of "Star of Canton" and "Beijing House". The Group also offers Thai cuisine under a newly-established brand known as "La Maison D' Elephant".

The Group attributes the growth and success to its dedication to offering quality food and services to the customers. While striving for performance, the Group pursues business sustainability by being a responsible corporate citizen and is committed to maintaining high standards of business practices in relation to environmental protection, social responsibility and corporate governance.

## Reporting Period and Scope

This is the Environmental, Social and Governance Report (the "**ESG Report**") issued by the Company for the financial year ended 31 December, 2018.

The content of this ESG Report has been prepared in compliance with the requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Based on the principle of materiality for disclosure and reporting, this ESG Report focuses primarily on the Group's restaurant operations in Hong Kong and the PRC, as well as the headquarter office. It summarizes the Group's material policies and practices in the areas of sustainable development and social responsibility.

## Materiality Assessment

We have identified the issues that matter most to our stakeholders, mainly customers and staff members. First and foremost, food quality and safety are crucial to the Group's branding and reputation. It is also important that we show concerns for the health and satisfaction of our customers and employees, as well as addressing the potential impacts of our business operations on the environment and society.

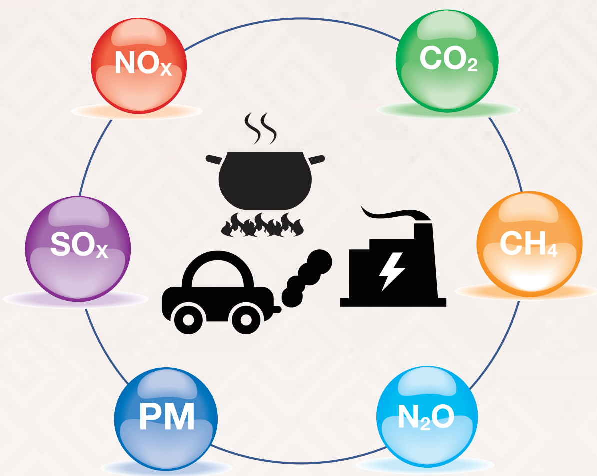
## 1. Environmental Protection

The Group is committed to sustainable development and preservation of resources. We recognize that the long-term viability of the Group's business is closely linked with the well-being of the society. We strive to minimize the potential impacts of our business on the environment and society in which we operate. During the Reporting Period, the Group did not experience any non-compliance incident in relation to the environmental laws and regulation, in the PRC and the Hong Kong.

### *Emission & Wastes*

During the food preparation process and operations of our restaurants, oil fumes and odor, sewage, used cooking oils, kitchen waste and garbage are produced.

The Group strictly controls the emission of oil fumes in accordance with the requirements as stipulated in the Air Pollution Control Ordinance of Hong Kong and the Law of the PRC on the Prevention and Control of Atmospheric Pollution. All restaurants of the Group have installed exhaust emission systems and air pollution control equipment, including mechanical ventilation systems and oil fume exhaust filters. These measures help minimize the oil fume emission and odor nuisance arising from our restaurant operations.



### *Air emissions*

The air emissions were mainly from cooking gas and vehicles (Approx.)

| | Nitrogen oxides | Sulphur oxides | Particulate Matter |
|---|---|---|---|
| 2017 | 2,863 kg | 14.34 kg | 4.80 kg |
| 2018 | 2,960 kg | 14.39 kg | 9.62 kg |

### *Greenhouse gas emissions*

Scope 1 emissions were mainly from cooking gas and vehicles (Approx.)

| | Carbon dioxide | Methane | Nitrous oxide |
|---|---|---|---|
| 2017 | 37,840 tonnes | 13,920 kg | 47,378 kg |
| 2018 | 37,772 tonnes | 13,913 kg | 49,115 kg |

Scope 2 emission, mainly from purchased electricity was approximately 3,322,936 kg (2017: 2,552,292 kg). The total greenhouse gas emissions (Scope 1 and 2) were approximately 41,158 tonnes (2017: 40,453 tonnes). We do not report Scope 3 emissions because of lacking complete and accurate data.

Hydro vent systems are also installed to control the effluent arising from food preparation, cooking and utensils washing. To ensure proper disposal of the waste cooking oil generated from our restaurant operations, the Group works with a waste oil company which collects and recycles the waste cooking oil into biodiesel.

In addition, the Group operates transportation vehicles that meet the emission and noise control standards issued by the Hong Kong government.

The packaging material the Group uses is mainly plastic bags and boxes for take-away orders. We are committed to adopting recycled plastic packages and minimizing the usage for our customers. The total plastic and paper packaging materials used in 2018 was approximately 914 kg and 448 kg respectively.

### *Use of Resources*

The Group advocates energy saving, water conservation, and material recycling in the business operation.

Electricity is a major resource our office and restaurant operations consume every day. The Group promotes energy saving with various energy-efficient measures, which include switching off idle lightings, electrical appliances, as well as electric and electronic devices (including but not limited to computers, printers, photocopiers and air-conditioners). In addition, the Group uses LED lighting in various areas of the Group's office and restaurants.

Water is essential to all communities. We promote water conservation to our customers and employees. Reminders of water-saving responsibilities, in the form of notices and signs, are posted near to water outlets in the kitchens, washrooms, and offices.

Used papers constitutes majority of the office wastes at the headquarters. The Group promotes double-sided printing, as well as encourages employees to reduce the amount of printing where possible. Recycling bins are provided in the office to promote paper recycling and minimize paper wastes. Used papers are collected by paper recyclers. Used toner cartridges are also returned to respective suppliers for recycling.

| **Use of resources** | **Unit** | 2017 | **2018 *(approx.)*** |
|---|---|---|---|
| Electricity | kWh | 2,582,292 | **5,506,260** |
| Electricity intensity | kWh per square meter | 362 | **429** |
| Water | Cubic meter | 186,672 | **218,951** |
| Water intensity | Cubic meter per square meter | 26 | **17** |

**POWER**

**WATER**

~ 5.5 million kWh
~ 429 kWh/m$^2$

**Consumption Intensity**

~ 219,000 m$^3$
~ 17 m$^3$/m$^2$

## 2. Employment and Labor Practices

***Employment***

Our employees are valuable assets that contribute to the success of the Group. The Directors believe that success in hiring, training and retaining experienced employees is critical to providing reliable and quality services in our restaurants. The Group is in strict compliance with relevant labour regulations in the PRC and Hong Kong, including the "Labour Law of the PRC", "Employment Contract Law of the PRC", "Social Insurance Law of the PRC", "Regulation on Work-Related Injury Insurances" and "Employment Ordinance", which assure that employees' basic legal rights and interests are being protected.

The Group seeks to hire employees with relevant experience in the restaurant industry. We offer internal promotion opportunities and competitive remuneration and benefits, with reference to the market conditions, individual responsibilities, performance and qualifications. Various fringe benefits include free meals during shift as well as staff quarter for our restaurant employees in Shenzhen. Discretionary bonus may be awarded based on individual performance.

The Group also participates in the pension scheme registered under the Mandatory Provident Fund Schemes Ordinance of Hong Kong (the "**MPF Ordinance**") for the employees in Hong Kong. It is funded by contributions from employer and employees pursuant to the provisions of the MPF Ordinance. Employees of the Group in the PRC are members of respective state-managed defined contribution retirement benefits schemes operated by the local governments. The employers and the employees are obliged to make contributions at a certain percentage of the payroll under rules of the schemes.

Employees are eligible for stipulated annual leave, sick leave and other types of leave in accordance with national and local laws applicable in the cities where the Group operates.

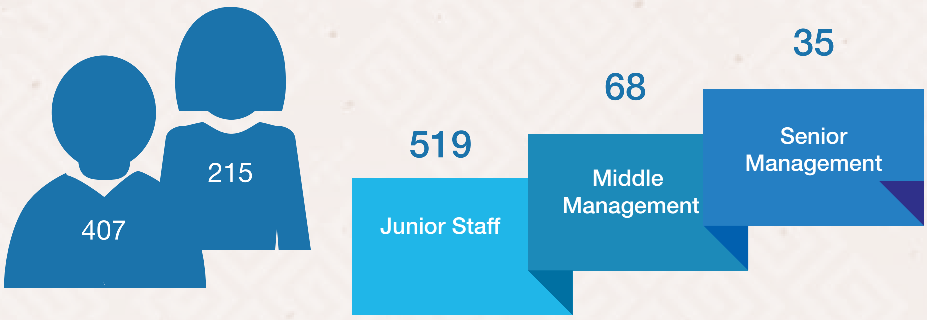
The following figures are compiled based on the total number of staff member as of 31 December, 2018.

| Gender | Number of staff |
|---|---|
| Male | 407 |
| Females | 215 |
| Total | **622** |

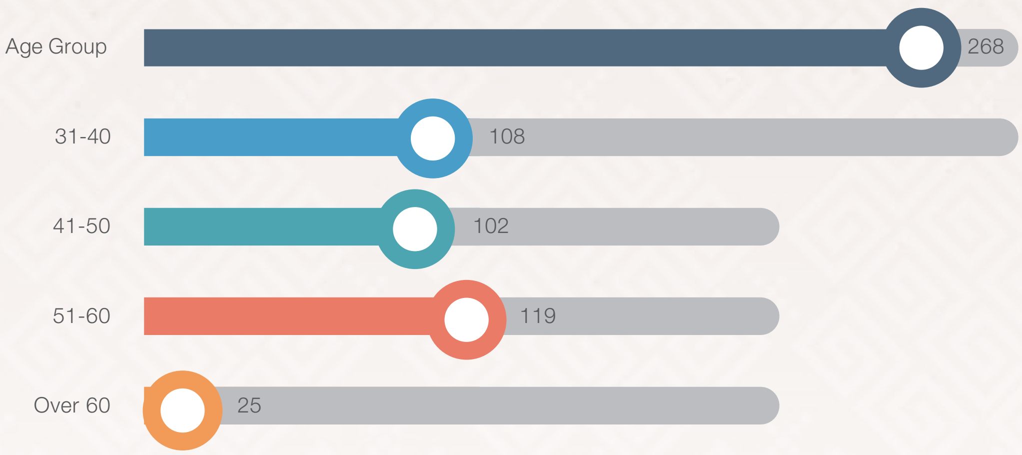
| Employment type | Number of staff |
|---|---|
| Senior management | 35 |
| Middle management | 68 |
| Junior staff | 519 |

| Age group | Number of staff |
|---|---|
| Under 31 | 268 |
| 31-40 | 108 |
| 41-50 | 102 |
| 51-60 | 119 |
| Over 60 | 25 |

**Employee Distribution**
**(Figures in number of employees)**




**Employees by Age Group**

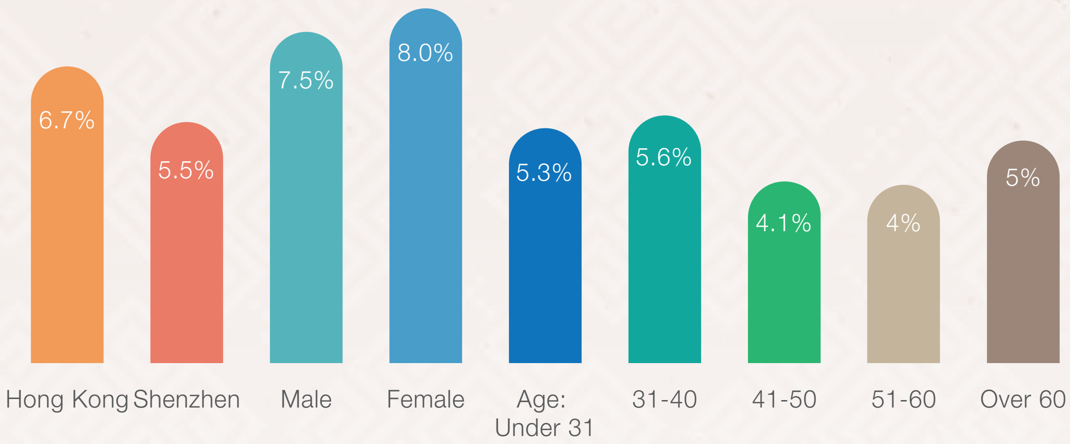


**Total Number of Employees – 622**

The turnover rate of our staff members is kept at a stable and relatively low level. Below are the turnover rates calculated as per different criteria:

| | |
|---|---|
| **Hong Kong** | 5.0% |
| **Shenzhen** | 6.7% |
| **Male** | 5.5% |
| **Female** | 7.5% |
| **Under 31** | 8.0% |
| **31-40** | 5.3% |
| **41-50** | 5.6% |
| **51-60** | 4.1% |
| **Over 60** | 4.0% |

**Staff Turnover (%)**



### *Health and Safety*

The health and safety of our employees are important to us. The Group is committed to providing a safe working environment for the employees. Each of the Group's restaurants in Hong Kong satisfies the requirements by the Director of Food and Environmental Hygiene ("**DFEH**") under the Public Health and Municipal Services Ordinance in respect of means of ventilation, sanitary fitments, and facilities for cleansing equipment and utensils, means of exit and entry and fire safety. The Group has also stringently abided to other relevant labour health and safety regulations in the PRC and Hong Kong, including the "Law on the Prevention and Control of Occupational Diseases of the PRC", "Production Safety Law of the PRC" and "Occupational Safety and Health Ordinance", etc.

We strive to create a strong culture of safety awareness by implementing high safety standards and providing appropriate training and education to our employees. In particular, restaurant staff are required to follow the Group's kitchen safety manual which provides clear guidance on various occupational safety matters in the restaurant operation. The Group also provides fire safety training for staffs across all the departments to increase awareness of the threat posed by fire to people, property and business continuity.

The Directors believe these measures are adequate and effective to prevent serious work injuries. When an accident occurs in the Group's restaurant, the restaurant manager is responsible for reporting the accident to the administration department as soon as possible.

The Directors confirm that there was no material accident at the Group's restaurants and the Group recorded a relatively small number of non-serious work-related injuries of its employees during the financial year ended 31 December 2018.

| | |
|---|---|
| **Number of injuries** | 27 |
| **Lost days due to work injury** | 387.5 |


387.5 lost days

### *Development and Training*

The Directors believe that the stability of a reliable, skilled workforce is critical to the success of the Group's business. The Group provides comprehensive on-the-job training and clear career paths to the employees. For instance, based on the job duties of individual employees, we offer vocational training on food ingredients, food preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the restaurant operation. In addition, the Group trains all front-line service staff on customer services. Induction coaching is provided to all the new staff members. Restaurant managers also hold daily briefing sessions with front-line service staff to review service performance of the day. The management in PRC received an average of 4 hours' training per person in 2018.

The Group has always encouraged its Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance. During the Reporting Period, the Company has provided and all Directors have attended at least one training course on the updates of the main board Listing Rules concerning good corporate governance practices.

### *Labor Standards*

The staff handbook of the Company ("**Staff Handbook**") contains the relevant labor laws, regulations and industry practices. It also covers areas such as compensation and dismissal, promotion, working hours, rest periods and other benefits and welfare. The Group prohibits the use of child labour and forced labour. We ensure fair and equal treatment of all employees.

The Group strictly complied with all relevant laws and regulations throughout the year ended 31 December 2018, and did not find any cases with regard to child labour and forced labour during the year.

## 3. Operational Practices

### *Food Safety and Quality Assurance*

The Group observed all the applicable laws and regulations, including the Food Safety Law of the PRC that applies to food production and processing, food circulation and dining service in the PRC.

We place great emphasis on identifying and securing a reliable supply of fresh and quality food ingredients for our restaurant operations. The Group selects food ingredients carefully, often based on origin, nutritional value, freshness and consumption safety. Raw materials and food ingredients are sourced primarily from the list of suppliers approved by the Group's senior management. Freshness and quality of the raw materials and food ingredients are examined on a regular basis. The Group would cease sourcing from those suppliers who fail to provide quality food ingredients as specified.

In addition, all restaurants of the Group follow the standardized preservation methods and recommended storage periods for different categories of foods. The Directors believe such practice promotes food quality, ensures food safety and preserves the freshness of food ingredients.

# Environmental, Social and Governance Report

The Group implements a quality control system that emphasizes food hygiene and safety as well as the sanitation and cleanliness of restaurant premises. It covers quality control from food processing and cooking, food and services provided to customers, to the dining environments of restaurants.

Food safety policies and procedures have been developed in accordance with the standards required by the relevant government authorities. Restaurant managers are responsible for reviewing the operations and performance of their respective restaurants to ensure that they are in compliance with the Group's operating guidelines and policies. All the chefs and staff working in the kitchens are required to strictly adhere to the procedures and measures adopted by the senior management of the Group. They receive on-the-job training related to food preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the restaurant operation.

In total, there are about ten staff members from different restaurants involved in implementing various quality control measures on food production, including, among others, checking the quality upon purchase of raw materials, receipt of food ingredients, cooking and serving of foods.

To increase customers' confidence in the foods provided by our restaurants, the Group also participated, as a Scheme Companion, in the Hong Kong Cooking Oil Registration Scheme launched by Hong Kong Quality Assurance Agency of the Hong Kong government.

The Directors believe that maintaining good customer satisfaction will help strengthen the Group's price-value proposition, branding and reputation. We make every effort to understand our customers' needs and enhance their experience with our services. The Group welcomes comments and feedback from the customers. All front-line service staff are required to handle every request, enquiry or complaint of customers promptly and seriously. In case of any customer complaint in relation to food or quality of services, restaurant managers would promptly investigate and resolve the matter.

### *Supply Chain Management*

Sourcing capability plays an important role in the management of restaurant business, and effective supplier selection is an essential element in this aspect. Leveraging the senior management's experience in the restaurant industry, the Group has developed a supplier selection system based on a set of selection criteria including, but not limited to, the pricing and quality of ingredients, and the reputation, service, agility, delivery efficiency and past performance of the suppliers.

The Group has established and maintained long-term relationships with a number of suppliers. To ensure stable supply of food ingredients and minimize the risk of non-delivery, sub-standard products and supplier's default, the Group generally sources major raw materials from more than one approved supplier. Currently we source our foods from over 80 suppliers, of which over 50 suppliers are Hong Kong based and approximately 30 of them are PRC based. The Group places great emphasis on the quality of its raw materials, and closely monitors whether the suppliers can achieve the aforesaid criteria.

Our purchasing department regularly conducts supplier reviews to ensure product quality and safety. All suppliers are required to hold valid licences required by the government, and all imported goods shall obtain proper clearance from the respective authorities. Goods received from suppliers have to be in compliance with the food labeling requirements and relevant hygiene and sanitary regulations.

### *Anti-Corruption*

The Group is committed to conducting business in an ethical manner. We have put in place internal controls and policies to prevent occurrence of fraud, theft, bribery, corruption and other misconducts involving employees, customers and other third parties. The Code of Business Conducts and Guidelines of the Staff Handbook are developed and updated in accordance with all relevant laws and regulations that apply in Hong Kong and the PRC.

Our employees are regularly informed of the Group's expectations and guidelines on professional and ethical conducts during the normal course of business. In the event that employees come across any questionable behaviors, they are encouraged to report to the Group's senior management for further investigation.

To the best knowledge of the Directors, the Group did not experience any cash embezzlement by employees and has not encountered any instances involving fraud, bribery, or corruption during the financial year. The Directors consider the Group's internal controls and policies were adequate during the year ended 31 December 2018.

## 4. Community Involvement

***Care for elderly***

We continue to care for and serve the elderly in Hong Kong. The Group provides certain services and facilities attentive to the elderly needs. The Group also provides relevant trainings to increase employees' awareness and knowledge in this aspect.

The Group is aware that the elderly have increasingly become socially isolated in their lives. To help them build a sense of belonging in the community, in 2018 the Group organized and invited the elderly to have free meals together at its restaurants. These activities and events have encouraged our staff and families to care for the elderly and promoted our caring culture in the society. In 2018, we donated HK$500,000 to the Community Chest.

# Biographical Details of Directors and Senior Management

## Executive Directors

**Mr. Chan Chun Kit (陳振傑) ("Mr. Chan")**, aged 63, is the chairman of the Board, the chief executive officer of the Company, an executive Director and one of the controlling shareholders of the Company (the "Controlling Shareholders"). He is also the chairman of the nomination committee of the Company (the "Nomination Committee") and a member of the Remuneration Committee. Mr. Chan was appointed as a Director on 1 September 2015 and re-designated as an executive Director on 23 September 2015. Mr. Chan is responsible for the Group's overall management, strategic development, financial management and major decision-making of the Group. He is also a director of various subsidiaries of the Group.

From December 2012 to May 2014, Mr. Chan completed 13 courses including construction and operation management of catering corporations of chain-store franchise system* (餐飲企業連鎖體系建設與運營管理) held by the Graduate School in Shenzhen, Tsinghua University in order to enhance the brand management of the Group.

Mr. Chan has over 19 years of experience in the restaurant business. He is currently the vice chairman of the Association of Restaurant Managers. Mr. Chan is also the committee member of the training committee of Chinese Cuisine Training Institute.

**Mr. Lam Kwok Leung Peter (林國良) ("Mr. Lam")**, aged 59, was appointed as an executive Director and the compliance officer of the Company on 23 September 2015 and 16 June 2016, respectively, and he is one of the Controlling Shareholders. He is also a member of the legal compliance committee of the Company (the "Legal Compliance Committee"). Mr. Lam is mainly responsible for the management of leases and administrative matters of the Group.

Mr. Lam has over 30 years of experience in retail and commercial leasing as well as property development in Hong Kong. He had held various senior roles in renowned property developers including Hang Lung (Real Estate Agencies) Limited from December 1984 to March 1988, Lai Fung Holdings Limited from July 1988 to January 1998 and Henderson Real Estate Agency Limited from February 1998 to October 1998. Mr. Lam joined the Group in 2004.

Mr. Lam obtained a diploma in housing from the University of Hong Kong in August 1998. He further obtained a master's degree of arts in public policy and management from the City University of Hong Kong in November 2007.

Mr. Lam is a fellow member of Hong Kong Institute of Real Estate Administration since March 2002, and a fellow member of Hong Kong Institute of Shopping Centre Management since 2006. He is also a member of Hong Kong Institute of Housing since 1998, a member of Hong Kong Institute of Marketing since April 1999, and a corporate member of Chartered Institute of Housing since December 1998. Mr. Lam was appointed as Justice of Peace in 2014, and is currently the Life Honorable President of Hong Kong General Chamber of Small and Medium Business. Mr. Lam was elected as a member of Royal Institution of Chartered Surveyors (英國皇家測量師學會) in September 2015.

**Mr. Wong Ka Wai (王家惠) ("Mr. Wong")**, aged 56, was appointed as an executive Director on 23 September 2015 and is one of the Controlling Shareholders. He is mainly responsible for the management of control of food quality and administrative matters of the Group.

From September 2002 to January 2003, Mr. Wong completed the PRC Tsinghua Advanced Research Selected Course for Master of Business Administration (中國清華MBA精選課程高級研修) held by the Research Institute of the Tsinghua University in Shenzhen.

Mr. Wong was the head of the Hopeh and Shantung Natives (Hong Kong) Association in 2012, and is currently a committee member of the Shandong Committee of the Chinese People's Political Consultative Conference.

**Mr. Chow Yiu Pong David (周耀邦) ("Mr. Chow")**, aged 33, was appointed as an executive Director on 23 September 2015 and is one of the Controlling Shareholders. He is mainly responsible for the marketing and promotions of the Group's operations. Mr. Chow is the nephew of Mr. Chow Chor Ting Anthony, one of the Controlling Shareholders.

Mr. Chow obtained a Higher Diploma in Web-based Technology for Business from Hong Kong Institute of Vocational Education (Sha Tin) in July 2005. He further holds a degree of Bachelor of Science (Information Technology) from the Swinburne University of Technology in Melbourne, Australia by way of distance learning in March 2007.

From July 2005 to March 2012, Mr. Chow worked at Compass Business Solutions Limited as a programmer, and was subsequently promoted to a technical consultant since October 2008. Since July 2012, Mr. Chow has been working at Tectura Hong Kong Limited as a client services consultant.

## Independent Non-Executive Directors

**Mr. Liu Chi Keung (廖志強) ("Mr. Liu")**, aged 67, was appointed as an independent non-executive Director on 16 June 2016, and is mainly responsible for overseeing the management independently and providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company. He is also a member of each of the audit committee of the Company (the "Audit Committee"), the Nomination Committee, the Remuneration Committee and the Legal Compliance Committee.

Mr. Liu obtained a certificate in Recreation Management from the University of Hong Kong in December 1980. He further completed a one-year diploma in Training Management Programme from the Chinese University of Hong Kong in November 1989.

Mr. Liu has extensive experience in administration, training and management. Since June 1973, Mr. Liu joined the Civil Aid Service as an Assistant Training Officer, and was subsequently promoted to the Chief Staff Officer since April 2007. Mr. Liu currently serves the Hong Kong St. John Ambulance Association as the chairman of assessment committee.

**Prof. Wong Lung Tak Patrick (黃龍德) ("Prof. Wong")**, aged 71, was appointed as an independent non-executive Director on 16 June 2016. He is mainly responsible for overseeing the management independently and providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company. He is also the chairman of each of the Audit Committee and the Legal Compliance Committee.

Prof. Wong is a Practising Certified Public Accountant. He has been the managing practising director of Patrick Wong C.P.A Limited since November 2010 and has over 40 years of experience in the accountancy profession. Prof. Wong was awarded a Badge of Honour in January 1993 by the Queen of England. He has been appointed as a Justice of the Peace since July 1998 and was awarded a Bronze Bauhinia Star (B.B.S.) in July 2010 by the Government of Hong Kong.

Prof. Wong is currently an independent non-executive director of C C Land Holdings Limited (Stock Code: 1224), Galaxy Entertainment Group Limited (Stock Code: 27), Sino Oil and Gas Holdings Limited (Stock Code: 702), Winox Holdings Limited (Stock Code: 6838), Water Oasis Group Limited (Stock Code: 1161) and BAIC Motor Corporation Limited (Stock Code: 1958).

Prof. Wong was an independent non-executive director of Munsun Capital Group Limited (formerly known as China Precious Metal Resources Holdings Co., Ltd.) (Stock Code: 1194) from October 2004 to October 2016, Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (formerly known as Guangzhou Pharmaceutical Company Limited) (Stock Code: 874) from June 2010 to May 2017, and Real Nutriceutical Group Limited (Stock Code: 2010) from March 2008 to October 2017, and National Arts Entertainment and Culture Group Limited (formerly known as National Arts Holdings Limited) (Stock Code: 8228) from February 2010 to December 2018.

**Mr. Tam Tak Kei Raymond (譚德機) ("Mr. Tam")**, aged 55, was appointed as an independent non-executive Director on 16 June 2016. He is mainly responsible for overseeing the management independently and providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Legal Compliance Committee.

Mr. Tam obtained a bachelor's degree of arts in accounting with computing from the University of Kent at Canterbury in the United Kingdom in July 1985. He is an associate member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Tam has over 20 years of professional accounting experience.

Mr. Tam is currently an independent non-executive director of Vision Fame International Holding Limited (Stock Code: 1315), CNQC International Holdings Limited (Stock Code: 1240) and MEIGU Technology Holding Group Limited (Stock Code: 8349).

Mr. Tam was an independent non-executive director of Digital Domain Holdings Limited (Stock Code: 547) during the period from September 2009 to August 2013; Zebra Strategic Holdings Limited (Stock Code: 8260) during the period from June 2012 to September 2014; Tianjin Jinran Public Utilities Company Limited (Stock Code: 1265) during the period from February 2011 to June 2015; Ngai Shun Holdings Limited (Stock Code: 1246) during the period from September 2013 to July 2015; and Beijing Enterprises Clean Energy Group Limited (formerly known as Jin Cai Holdings Company Limited) (Stock Code: 1250) during the period from July 2013 to July 2016. He was also the chief financial officer of King Force Security Holdings Limited (Stock Code: 8315) during the period from May 2014 to December 2014.

He was also the company secretary of Branding China Group Limited from April 2014 to April 2018 (Stock Code: 863).

# Biographical Details of Directors and Senior Management

## Senior Management

**Ms. Lai Chi Kong (黎志剛) ("Ms. Lai")**, aged 47, is the banquet sales deputy manager of the Group and is responsible for the management of banquet service and food products marketing. Ms. Lai joined the Group as public relations manager in June 2000. Ms. Lai has 16 years of experience in catering service field.

In December 2013, Ms. Lai obtained a certificate after attending the seminar on liquor licensing on 4 December 2013 from the Liquor Licensing Board. In June 2005, Ms. Lai completed the Hygiene Supervisor Training Courses from the Food and Environmental Hygiene Department.

**Ms. Hui Wai Shu Jessica (許蔚舒) ("Ms. Hui")**, aged 49, is the financial controller and company secretary of the Group (the "Company Secretary") and is responsible for overseeing the Group's financial reporting, financial planning, treasury, financial control and company secretarial matters. She joined the Group as the financial controller in July 2015. She is also a member of the Legal Compliance Committee.

Ms. Hui obtained a certificate for Accounting Technicians at Sha Tin Technical Institute in July 1998. She graduated from the University of Hull in the United Kingdom obtaining a Bachelor's degree in Science (Honours) in accounting in July 2010. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

Ms. Hui has over 20 years working experience in accounting and audit field. Prior to joining the Group, she worked at Ting Ho Kwan & Chan as an audit senior from July 1990 to March 1993. From April 1993 to September 1993, she worked as an accountant in San Yip Development Limited. From March 1994 to April 1995, Ms. Hui worked at Lawrence S.Y. Chan & Co. as an audit senior. From May 1995 to October 2010, Ms. Hui worked at Qing Yuan Investment Limited with her last position as an accounting supervisor. From October 2010 to June 2014, Ms. Hui worked at Paramount Catering Group Limited as the group's financial controller, and was subsequently promoted as a financial consultant in May 2014.

**Ms. Zhu Xueqin (朱雪琴) ("Ms. Zhu")**, aged 41, is the general manager of the Shenzhen Restaurant of the Group, and is responsible for the management and administrative of the Shenzhen Restaurant. She joined the Group in May 2013.

Prior to joining the Group, Ms. Zhu worked at 深圳市王子廚房餐飲有限公司 (Shenzhen Prince Kitchen Catering Company Limited*) from 2003 to 2009 with her last position as deputy manager. From 2009 to 2012, she worked at 江蘇王子飯店有限公司 (Jiangsu Prince Catering and Management Limited*) with her last position as general manager.

## Senior Management (Former)

**Mr. Yim Fung (嚴峰) ("Mr. Yim")**, aged 46, is the executive chef of the Group. He joined the Group in February 2017, and is responsible for overseeing the kitchen operations and food quality control. He resigned in November 2018. Prior to joining the Group, Mr. Yim was the chef at Lei Garden Restaurant Group from 1994 to 2005. He was an executive chef in Sportful Garden Restaurant from 2005 to 2012. From 2012 to 2014, he was the executive chef of Hai Yue Hui (海悅會) in Fuzhou, the PRC. From 2015 to 2016, he was the head chef of Restaurant Birsay (柏瑞思) in Shenzhen, the PRC.

# Corporate Governance Report

The Board is pleased to present herein the corporate governance report of the Company for the year ended 31 December 2018.

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for the Shareholders.

## Compliance with the Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") in Appendix 14 of the Listing Rules. For the year ended 31 December 2018 (the "Reporting 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 A.2.1 of the Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the Reporting Period, the Company has not separated the roles of chairman and chief executive officer of the Company. Mr. Chan was the chairman and also the chief executive officer of the Company 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.

# Corporate Governance Report

## Board of Directors

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details of the Board Committees are set out in this annual report. Under the terms of reference, the duties of the Board in respect of corporate governance are as follows:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

5. to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

### Composition of the Board

Up to the date of this annual report, the Board comprises seven Directors, including four executive Directors and three independent non-executive Directors. In particular, the composition of the Board is set out as follow:

***Executive Directors***

Mr. Chan Chun Kit *(Chairman and Chief Executive Officer)*
Mr. Lam Kwok Leung Peter *(Compliance Officer)*
Mr. Wong Ka Wai
Mr. Chow Yiu Pong David

***Independent Non-executive Directors***

Mr. Liu Chi Keung
Prof. Wong Lung Tak Patrick
Mr. Tam Tak Kei Raymond

# Corporate Governance Report

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Board was consisted of three independent non-executive Directors during the Reporting Period. During the Reporting Period and as of the date of this annual report, the number of independent non-executive Directors represents more than one-third of the Board. As such, there is a strong independent element in the Board to provide independent judgement. Amongst the independent non-executive Directors, Prof. Wong Lung Tak Patrick and Mr. Tam Tak Kei Raymond have the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

The Company has entered into a service agreement with each of the independent non-executive Directors for a term of one year, which may be terminated earlier by no less than three months written notice served by either party on the other.

The Company will use its best efforts to achieve the board diversity policy and ensure that the Board has a balance of skills, experience and diversity which is appropriate to the needs of the Company's business. The selection of candidates will be based on a range of criteria, including but not limited to, gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The appointment of Directors will continue to be made based on merit and potential contribution by the candidate to the Board and the Company. Each of Directors' respective biographical details is set out in the section "Biographical Details of Directors and Senior Management" of this annual report. The Directors have the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company.

Pursuant to Article 108 of the articles of association of the Company (the "Articles"), one-third of the Directors for the time being (or if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Chan Chun Kit, Mr. Chow Yiu Pong David and Mr. Liu Chi Keung will retire from office as Directors at the forthcoming annual general meeting of the Company (the "AGM"), and being eligible, to offer themselves for re-election.

Specific enquiry has been made by the Company to each of the independent non-executive Directors to confirm their independence pursuant to Rule 3.13 of the Listing Rules. In this connection, the Company has received the positive annual confirmations from all of the three independent non-executive Directors. Based on the confirmations received, the Company considers all independent non-executive Directors to be independent under the Listing Rules.

## Board and General Meetings

During the Reporting Period, eight board meetings were held to approve, among others, the annual results for the year ended 31 December 2017, the first quarterly results, the interim results in respect of the year ended 31 December 2018. The AGM which was held on 29 May 2018 was the general meeting of the Company during the Reporting Period.

The attendance of the respective Directors at the Board meetings are set out below:

| | Attendance/Number of meetings during the Reporting Period |
|---|---|
| **Executive Directors** | |
| Mr. Chan Chun Kit (Chairman and Chief Executive Officer) | 8/8 |
| Mr. Lam Kwok Leung Peter (Compliance Officer) | 8/8 |
| Mr. Wong Ka Wai | 7/8 |
| Mr. Chow Yiu Pong David | 8/8 |
| **Independent Non-executive Directors** | |
| Mr. Liu Chi Keung | 8/8 |
| Prof. Wong Lung Tak Patrick | 8/8 |
| Mr. Tam Tak Kei Raymond | 8/8 |

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles. All minutes of the Board meetings were recorded in sufficient detail the matters considered by the Board and the decisions reached.

To facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information when required. The Directors can also seek independent professional advice in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the Company Secretary who is responsible for ensuring that the Board/committee procedures are complied with, and for advising the Board/committee(s) on compliance matters.

The Company has arranged appropriate insurance cover in respect of possible legal action against its Directors and senior officers.

## Relationships among Board Members and Senior Management

Saved as disclosed in the section headed "Biographical Details of Directors and Senior Management" of this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and the Senior Management.

# Corporate Governance Report

## 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 (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 for the year ended 31 December 2018.

## Directors' Continuing Professional Development Programme

The Group acknowledges the importance of adequate and ample continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged its Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

During the Reporting Period, the Company has provided and all Directors have attended at least one training course on the updates of the Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the Listing Rules.

## Board Committees

The Board has established a number of functional committees in compliance with the relevant Listing Rules and to assist the Board to discharge its duties. Currently, four committees have been established:

1. The Audit Committee was established on 16 June 2016 with its terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules, and paragraphs C3.3 and C3.7 of the Code;

2. The Remuneration Committee was established on 16 June 2016 with its terms of reference in compliance with paragraph B1.2 of the Code;

3. The Nomination Committee was established on 16 June 2016 with terms of reference in compliance with paragraph A5.2 of the Code; and

4. The Legal Compliance Committee was established on 16 June 2016.

The functions and responsibilities of these committees have been set out in the relevant terms of reference which are of no less stringent than that stated in the Code. The relevant terms of reference of each of the Audit Committee, Remuneration Committee and Nomination Committee can be found on the Group's website (http://www.starofcanton.com.hk/) and the website of the Stock Exchange in accordance with the Code. All committees have been provided with sufficient resources and support from the Group to discharge their duties.

## Audit Committee

The Audit Committee comprises three members, namely Prof. Wong Lung Tak Patrick (Chairman), Mr. Liu Chi Keung and Mr. Tam Tak Kei Raymond, all of whom are independent non-executive Directors. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. In addition, the majority of the Audit Committee shall be independent non-executive Directors.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others (for the complete terms of reference please refer to the Group's website (http://www.starofcanton.com.hk/) or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditors, and approve the remuneration and terms of engagement of the Company's external auditors;

2. to review and monitor the Company's external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report, quarterly report and review significant financial reporting judgments contained in them;

4. to discuss with the Company's external auditors questions and doubts arising in the audit of annual accounts;

5. to review the statement about the Company's internal control system (if any) as included in the Company's annual report prior to submission for the Board's approval;

6. to review the Company's financial reporting, financial controls, internal control and risk management systems;

7. to discuss the internal control system with the Company's management to ensure that management has performed its duty to have an effective internal control system;

8. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

9. to review the financial and accounting policies and practices of the Group;

10. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

11. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

12. to review the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

During the Reporting Period, the Audit Committee had reviewed the Group's annual results and annual report for the year ended 31 December 2017, first quarterly results for the three months ended 31 March 2018 and interim results for the six months ended 30 June 2018, and discussed internal controls, risk management and financial reporting matters. The Audit Committee had also reviewed audited annual results for the year ended 31 December 2018, this annual report, and confirmed that this annual report complies with the applicable standard, the Listing Rules, and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors. The Audit Committee has recommended to the Board that Ting Ho Kwan & Chan CPA Limited ("THKC") be nominated for re-appointment as the Company's auditor at the forthcoming AGM.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the Reporting Period and up to the date of this annual report.

The Audit Committee meets at least four times a year. During the Reporting Period, the Audit Committee had held four meetings together with the management of the Group and/or the Company's auditors. The attendance records of the members of the Audit Committee are summarised below:

| | **Attendance/Number of meetings during the Reporting Period** |
|---|---|
| Prof. Wong Lung Tak Patrick *(Chairman)* | 4/4 |
| Mr. Liu Chi Keung | 4/4 |
| Mr. Tam Tak Kei Raymond | 4/4 |

### Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Tam Tak Kei Raymond (Chairman), Mr. Liu Chi Keung and Mr. Chan Chun Kit. Mr. Liu Chi Keung and Mr. Tam Tak Kei Raymond are independent non-executive Directors.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include (for the complete terms of reference please refer to the Group's website (http://www.starofcanton.com.hk/) or the website of the Stock Exchange):

1. to consult the chairman of the Board and/or chief executive about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

9. to ensure that no Directors or any of his close associates is involved in deciding his own remuneration.

The Remuneration Committee meets at least once a year. During the Reporting Period, the Remuneration Committee had held two meetings. The attendance records of the members of the Remuneration Committee are summarised below:

| | **Attendance/Number of meetings during the Reporting Period** |
|---|---|
| Mr. Tam Tak Kei Raymond *(Chairman)* | 2/2 |
| Mr. Liu Chi Keung | 2/2 |
| Mr. Chan Chun Kit | 2/2 |

During the Reporting Period, the Remuneration Committee reviewed and made recommendations on the remuneration package of the Senior Management. The Board is of the view that the Remuneration Committee had properly discharged its duties and responsibilities during the Reporting Period and up to the date of this annual report.

## Nomination Committee

The Nomination Committee comprises three members, namely Mr. Chan Chun Kit (Chairman), Mr. Liu Chi Keung and Mr. Tam Tak Kei Raymond. Mr. Liu Chi Keung and Mr. Tam Tak Kei Raymond are independent non-executive Directors.

According to the terms of reference the Nomination Committee, the Nomination Committee shall convene meeting at least once a year and the primary responsibilities of the Nomination Committee include (for the complete terms of reference, please refer to the Group's website (http://www.starofcanton.com.hk/) or the website of the Stock Exchange):

1. to review the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. to review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;

3. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. to assess the independence of independent non-executive Directors; and

5. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

During the Reporting Period, the Nomination Committee held one meeting. The attendance of the members of the Nomination Committee at the committee meetings is as follows:

| | **Attendance/Number of meetings during the Reporting Period** |
|---|---|
| Mr. Chan Chun Kit *(Chairman)* | 1/1 |
| Mr. Liu Chi Keung | 1/1 |
| Mr. Tam Tak Kei Raymond | 1/1 |

During the Reporting Period, the Nomination Committee held one meetings in February 2018, to review and assess (i) the structure, size and composition (including the skills, knowledge and experience) of the Board, (ii) the performance of each of the Directors, (iii) the independence of Independent non-executive Directors and to propose for the appointment or re-appointment or succession (if applicable) of Directors.

## Legal Compliance Committee

The Legal Compliance Committee comprises five members, namely Prof. Wong Lung Tak Patrick (Chairman), Mr. Tam Tak Kei Raymond, Mr. Liu Chi Keung, Mr. Lam Kwok Leung Peter and Ms. Hui Wai Shu Jessica. Prof. Wong Lung Tak Patrick (Chairman), Mr. Tam Tak Kei Raymond and Mr. Liu Chi Keung are independent non-executive Directors.

According to the terms of reference of the Legal Compliance Committee, the primary duties of the Legal Compliance Committee are to assist in overseeing the Group's compliance with laws and regulations relevant to its business operations and to review the effectiveness of its regulatory compliance procedures and system, and the Legal Compliance Committee shall convene meeting at least once a year.

During the Reporting Period, the Legal Compliance Committee held one meeting. The attendance of the members of the Legal Compliance Committee at the committee meetings is as follows:

| | **Attendance/Number of meetings during the Reporting Period** |
|---|---|
| Prof. Wong Lung Tak Patrick | 1/1 |
| Mr. Liu Chi Keung | 1/1 |
| Mr. Tam Tak Kei Raymond | 1/1 |
| Mr. Lam Kwok Leung Peter | 1/1 |
| Ms. Hui Wai Shu Jessica | 1/1 |

During the Reporting Period, the Legal Compliance Committee held one meeting in February 2018, in which, they reviewed (i) the compliance policies of the Company against the applicable laws and regulations and (ii) the training and continuing professional development of the Directors and Senior Management.

## Auditor's Remuneration

During the Reporting Period, the Group engaged THKC as the Group's external auditor and to hold office until the conclusion of the forthcoming AGM. The Company's consolidated financial statements for the year ended 31 December 2018 have been audited by THKC. The remuneration paid or payable to THKC is set out as follows:

| **Services rendered** | **Fees paid/payable for the year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | ***(HK$'000)*** | *(HK$'000)* |
| Statutory audit services | **690** | 560 |
| Non-audit services | **158** | 145 |

## Company Secretary

Ms. Hui Wai Shu Jessica ("Ms. Hui") was appointed as the Company Secretary on 16 June 2016. Please refer to the section headed "Biographical details of Directors and Senior Management" of this annual report for her biographical information.

During the Reporting Period, Ms. Hui undertook not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

## Compliance Officer

Mr. Lam Kwok Leung Peter, an executive Director, is the compliance officer of the Group. Please refer to the section headed "Biographical details of Directors and Senior Management" of this annual report for his biographical information.

## Risk Management and Internal Control Systems

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems of the Group. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers:

1. all material controls, including but not limited to financial, operational and compliance controls;

2. risks management functions; and

3. the adequacy of resources, qualifications and experience of staff in connection with the accounting and financial reporting function of the Group and their training programmes and relevant budget.

During the Reporting Period, the Audit Committee assessed the risk management and internal control environment of the Group and reviewed the internal control procedural manual of the Group and is satisfied with the Group's risk management and internal control systems. The systems are designed in consideration of the nature of business and the organisation structure. Further, the systems are designed to manage rather than eliminate the risk of failure in operational system and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, achieve efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

The Group has engaged external independent professionals to review its risk management and internal control systems and further enhance its risk management and internal control systems as appropriate.

There is currently no internal audit function within the Group. The Board has reviewed the need for an internal audit function and is of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the Board will continue to review the need for an internal audit function annually.

## Directors' and Auditor's Responsibility for Consolidated Financial Statements

The Directors acknowledge and understand their responsibility for preparing the consolidated financial statements and to ensure that the consolidated financial statements of the Group are prepared in a manner which reflects the true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required of the Listing Rules. The Directors are of the view that the consolidated financial statements of the Group for each financial year have been prepared on this basis.

To the best knowledge of the Directors, there is no uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

Statement of the Company's external auditor's responsibilities in respect of the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

# Corporate Governance Report

## General Meetings with Shareholders

The AGM is a forum in which the Board and the Shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc. At the AGM, the Directors (including independent non-executive Directors) are available to attend to questions raised by the Shareholders. The external auditors of the Company is also invited to be present at the AGM to address to queries of the shareholders concerning the audit procedures and the auditors' report.

The forthcoming AGM will be held on Thursday, 23 May 2019, the notice of which shall be sent to the Shareholders at least 20 clear business days prior to the meeting.

## Shareholders' Rights

### Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting ("EGM"). EGMs shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, all reasonable expenses incurred by the acquisition(s) as a result of the failure of the Board shall be reimbursed to the requisition(s) by the Company.

### Procedures for Shareholders' Nomination of Directors

Pursuant to Article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The period for lodgment of the notices required under the Article will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

### Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their enquiries concerning their shareholdings to the Company's share registrars. Shareholders may also make a request for the Company's information to the extent that such information has been made publicly available by the Company. All written enquiries or requests may be forwarded to the Company's head office or by fax to (852) 2525 2081, or by email to ir@starofcanton.com.hk.

The addresses of the Company's head office and the Company's share registrars can be found in the section "Corporate Information" of this annual report.

# Corporate Governance Report

## Dividend Policy

It is the policy of the Company to pay annual dividends to the Shareholders if the Group is profitable, operations environment is stable and there is no significant investment or commitment made by the Group.

In proposing any dividend payout, the Board shall also take into account, inter alia: (a) the Group's actual and expected financial performance; (b) the Group's expected working capital requirements and future expansion plans; (c) the Group's debt to equity ratios and the debt level; (d) any restrictions on payment of dividends that may be imposed by the Group's lenders; (e) general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; (f) dividends received from the Company's subsidiaries and associates; (g) the Shareholders' and investors' expectation and industry's norm; and (h) any other conditions or factors that the Board deems relevant.

The Board may update, amend, modify and/or cancel the dividend policy upon review from time to time.

## Investor Relations

To ensure transparent and comprehensive disclosures to investors, the Group delivers information of the Group to the public through various channels, including general meeting, public announcement and financial reports. The investors are also able to access the latest news and information of the Group via our website (http://www.starofcanton.com.hk).

In order to maintain good and effective communication, the Company together with the Board extend their invitation to all Shareholders and encourage them to attend the AGM and all future general meetings.

The Shareholders may also forward their enquiries and suggestions in writing to the Company to the followings:

Address: Room 2702, Tower 2
Kowloon Commerce Centre
No. 51 Kwai Cheong Road
Kwai Chung, New Territories
Hong Kong

Email: ir@starofcanton.com.hk

## Significant Changes in Constitutional Documents

During the year ended 31 December 2018, there had been no significant changes in the constitutional documents of the Company.

# Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements (the "Financial Statements") of the Company for the year ended 31 December 2018 (the "Reporting Period").

## Principal Activities

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in Note 38(c) to the Financial Statements of this annual report. During the Reporting Period, the Group is principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the PRC.

An analysis of the Group's results for the Reporting Period by segments is set out in Note 7 to the Financial Statements of this annual report.

## Business Review

The business review of the Group for the Reporting Period, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the business of the Group, is set out in the section headed "Management Discussion and Analysis" on pages 5 to 13 of this annual report. These discussions form part of this Directors' report.

## Results and Appropriations

The Group's results for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this annual report.

## Dividend

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

## Summary of Financial Information

The summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 146 of this annual report.

## Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in Note 16 to the Financial Statements of this annual report.

## Share Capital

The Company's issued share capital as at 31 December 2018 was 800,000,000 ordinary shares of HK$0.01 each.

Details of movements of the share capital of the Company during the Reporting Period are set out in Note 24 to the Financial Statements of this annual report.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

# Directors' Report

## Reserves

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in Note 38 to the Financial Statements and the consolidated statement of changes in equity of this annual report, respectively.

## Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution as calculated in accordance with the Articles and the Companies Law Cap. 22 of Cayman Islands, was approximately HK$11.6 million inclusive of share premium and accumulated losses.

## Major Customers and Suppliers

For the year ended 31 December 2018:

(i) due to the nature of the Group's business, its customers mainly represented walk-in customers from the general public. As such, the Directors consider that it is not practicable to identify the five largest customers of the Group, and the Group did not rely on any single customer; and

(ii) the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 38.2% (2017: less than 30%) of the Group's total purchases, and the largest supplier accounted for approximately 13.4% of the Group's total purchases. To the best of the knowledge of the Directors, none of the Directors, their close associates or any shareholder which to the knowledge of the Directors owns more than 5% of the Company's share capital had an interest in these major suppliers.

## Directors

The Directors during the Reporting Period and up to the date of this annual report were as follows:

### Executive Directors:

Mr. Chan Chun Kit
Mr. Lam Kwok Leung Peter
Mr. Wong Ka Wai
Mr. Chow Yiu Pong David

### Independent non-executive Directors:

Mr. Liu Chi Keung
Prof. Wong Lung Tak Patrick
Mr. Tam Tak Kei Raymond

In accordance with Article 112 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and any Director appointed by the Board as an additional Director shall hold office only until the next following AGM. Pursuant to Article 108(a) of the Articles, at each AGM, one-third of the Directors for the time being shall retire from office by rotation, whereby Mr. Chan Chun Kit, Mr. Chow Yiu Pong David and Mr. Liu Chi Keung will retire from office as Directors at the forthcoming AGM, and being eligible, offer themselves for re-election.

# Directors' Report

## Biographical Details of Directors and Senior Management

The biographical details of the Directors and the Senior Management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 26 to 29 in this annual report.

## Directors' Service Contracts

No Director proposed for re-election at the forthcoming AGM has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Contracts

Save for the related party transactions disclosed in Note 37 to the Financial statements of this annual report, no contract of significance to which the Company or any of its subsidiaries, holding company or fellow subsidiaries was a party and in which a Director had a material interests directly or indirectly subsisted at the end of the Reporting Period or at any time during the Reporting Period.

## Management Contracts

No management contracts concerning the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

## Contract of Significance

There was no contract of significance between the Company or any of its subsidiaries, and a Controlling Shareholder or any of its subsidiaries for the year ended 31 December 2018.

## Remuneration of the Directors, Senior Management and the Five Highest Paid Individuals

Details of the remuneration of the Directors and the five highest paid individuals in the Group are set out in Note 10 to the Financial Statements of this annual report.

The emoluments paid or payable to the Senior Management of the Group who are not Directors were within the following bands:

| | **Year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | ***Number of individuals*** | *Number of individuals* |
| Nil to HK$1,000,000 | **3** | 4 |
| HK$1,000,001 to HK$2,000,000 | **1** | – |
| | **4** | 4 |

# Directors' Report

## Permitted Indemnity Provision

Pursuant to the Articles, the Directors, managing Directors, alternate Directors, auditors, secretary and other officers of the Company for the time being shall be indemnified and secured harmless out of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or about the execution of their duty in their offices or in relation thereto.

The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the directors of the Company and directors of the subsidiaries of the Group.

## Emolument Policy

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and the Senior Management, having regard to the Group's operating results, individual performance and comparable market practices. The remuneration of the Directors is determined with reference to the economic situation, the market conditions, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in the section headed "Share Option Scheme" below.

## Pension Schemes

Details of the Group's pension schemes for the Reporting Period are set out in Note 3.18 to the Financial Statements of this annual report.

## Directors' Interests in Competing Businesses

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

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

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

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

### Hong Wo Kok Restaurant (康和閣酒家)

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

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

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

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

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

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

# Directors' Report

## Prince Café (太子茶餐廳)

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

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

Given the above, the Directors confirm that the Group has no present intention to acquire the Prince Café 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 report, 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 the Stock Exchange up to the date of this report.

On 10 January 2017, the Company was notified by Ms. Chan Josephine Wai Sze ("Ms. Chan"), being a close associate of Mr. Chan, that Ms. Chan was being offered by Mr. Tsang Kwok Hing 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 an acquisition agreement with Mr. Tsang Kwok Hing, pursuant to which Mr. Tsang Kwok Hing has conditionally agreed to sell and Keen Nation Limited has 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.

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

## Non-Competition Undertaking

Each of the Covenantors further undertakes that if she/he/it or her/his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with any business opportunity of the Group, she/he/it shall procure that her/his/its close associates to promptly notify the Group in writing with such required information to enable the Group to evaluate the merits of the relevant business opportunity and the Group shall have a right of first refusal to take up such opportunity and jointly pursue the same with the relevant Covenantor. The parties shall then negotiate in good faith with respect to a collaboration for such new business.

The Group shall, within 30 days after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal. The Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Details of the Deed of Non-Competition have been set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus. The Company has received a written confirmation from each of the Covenantors in respect of its/his/her compliance with the terms of the Deed of Non-Competition during the Reporting Period and up to the date of this annual report.

All the independent non-executive Directors are delegated with the authority to review the Deed of Non-Competition. The independent non-executive Directors were not aware of any non-compliance of the Deed of Non-Competition given by the Controlling Shareholders from the date of the Deed of Non-Competition and up to the date of this annual report.

# Directors' Report

## 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 Company's listed securities during the Reporting Period.

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

## Arrangements to Purchase Shares or Debentures

Apart from the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", "Substantial Shareholders" and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" below, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

## Equity-Linked Agreement

Save as disclosed in the section headed "Share Option Scheme" below, no equity-linked agreements were entered into during Reporting Period or subsisted at the end of the year ended 31 December 2018.

## Environmental Policies and Performance

The Group is devoted to promoting and maintaining the environmental and social sustainable development of the regions where it operates. As a responsible enterprise, the Group strives to comply with all the relevant laws and regulations in terms of the environmentally friendliness, health and safety, adopts effective measures, conserves energy and reduces waste.

A separate report on environmental, social and governance matters will be published within three months after the publication of this annual report.

## Compliance with Relevant Laws and Regulations

The Group recognises the importance of compliance with legal and regulatory requirements and the risk of non-compliance with such requirements. The Group conducts on-going reviews of newly enacted/revised laws and regulations affecting its operations. The Company is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the Reporting Period.

## Relationship with Employees, Suppliers, Customers and other Stakeholders

The Group understands that the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

## Audit Committee

The Audit Committee together with the management have reviewed the accounting standards and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters in connection with the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2018.

# Directors' Report

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that, the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

## Auditor

Ting Ho Kwan & Chan CPA Limited ("THKC") has been appointed by the Directors as the first auditor of the Company since the Listing date. THKC will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming AGM. The Financial Statements have been audited by THKC.

## Share Option Scheme

The Company has conditionally adopted a share option scheme on 16 June 2016. The terms of the share option scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Particulars of the share option scheme which was adopted on 16 June 2016 are set out in Note 39 to the Financial Statements of this annual report. No share options were granted since the adoption of the share option scheme and there were no share option outstanding as at 31 December 2018.

## Disclosure of Interests

### A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which were required, pursuant to standard of dealings by Directors as referred to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

***(i) Long Position in the Shares***

| Name of Director | Capacity/Nature | Number of Shares held/ interested in | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Chan Chun Kit ("Mr. Chan") | Interests held jointly with other persons; Interest in a controlled corporation *(Notes 1 and 2)* | 469,200,000 | 58.65% |
| Mr. Wong Ka Wai ("Mr. Wong") | Interests held jointly with other parties *(Note 2)* | 469,200,000 | 58.65% |
| Mr. Chow Yiu Pong David ("Mr. David Chow") | Interests held jointly with other parties *(Note 2)* | 469,200,000 | 58.65% |

| Name of Director | Capacity/Nature | Number of Shares held/ interested in | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Lam Kwok Leung Peter ("Mr. Lam") | Interests held jointly with other parties *(Note 2)* | 469,200,000 | 58.65% |
| | Beneficial owner | 300,000 | 0.04% |
| Prof. Wong Lung Tak Patrick | Beneficial owner (including interest of his spouse) | 1,350,000 | 0.17% |

***(ii) Long position in the ordinary shares of associated corporations***

| Name of Director | Name of associated corporation | Capacity/Nature | Number of Shares held/ interested in | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Chan | Zhao Tian Ventures Limited | Interest in a controlled corporation *(Note 1)* | 6,286 | 62.86% |
| Mr. Wong | Zhao Tian Ventures Limited | Beneficial owner | 1,238 | 12.38% |
| Mr. David Chow | Zhao Tian Ventures Limited | Interest in a controlled corporation *(Note 3)* | 1,238 | 12.38% |
| Mr. Lam | Zhao Tian Ventures Limited | Attributable interest *(Note 4)* | 124 | 1.238% |

*Notes:*

1. Mr. Chan owns 50% issued shares of Bright Creator Limited, which wholly-owns Hong Cui Development Limited, whereas Hong Cui Development Limited owns 62.86% issued share capital of Zhao Tian Ventures Limited. As such, Mr. Chan is deemed, or taken to be, interested in all the Shares held by Zhao Tian Ventures Limited for the purposes of the SFO. Mr. Chan is a director of Zhao Tian Ventures Limited.

2. Mr. Chan, Mr. Wong, Mr. David Chow and Mr. Lam (together with Zhao Tian Ventures Limited, Ms. Liu Siu Kuen, Bright Creator Limited, Hong Cui Development Limited, Sun Foo Sing Development Limited, Sky Gain Investments Limited, Mr. Ho Wood Yam, Mr. Tsui King Foo, Mr. Chow Chor Ting Anthony, Ms. Tsui Yuk Yi, Mr. Tsui Chi Kit and Mr. Tam Chie Sang), are parties acting in concert (having the meaning ascribed to it under the Code on Takeovers and Mergers) pursuant to the concert party deed dated 25 September 2015 and the supplemental deeds dated 6 June 2016 and 23 August 2018, respectively. As such, Mr. Chan, Mr. Wong, Mr. David Chow and Mr. Lam (together with Zhao Tian Ventures Limited, Ms. Liu Siu Kuen, Bright Creator Limited, Hong Cui Development Limited, Sun Foo Sing Development Limited, Sky Gain Investments Limited, Mr. Ho Wood Yam, Mr. Tsui King Foo, Mr. Chow Chor Ting Anthony, Ms. Tsui Yuk Yi, Mr. Tsui Chi Kit and Mr. Tam Chie Sang) together control 58.65% of the entire issued share capital of the Company.

3. Mr. David Chow owns 37.5% issued shares of Sky Gain Investments Limited, which in turn owns 12.38% issued share capital of Zhao Tian Ventures Limited.

4. Mr. Lam owns 10% issued shares of Sun Foo Sing Development Limited, which in turn owns 12.38% issued share capital of Zhao Tian Ventures Limited.

## B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interest and short positions of the persons/entities (other than the Directors or chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

***Long Position in the Shares***

| Name of Shareholder | Capacity/Nature | Number of shares held/ interested in | Approximate percentage of shareholding |
|---|---|---|---|
| Zhao Tian Ventures Limited | Interests held jointly with other persons; Beneficial owner *(Notes 1 and 5)* | 469,200,000 | 58.65% |
| Ms. Liu Siu Kuen | Interests held jointly with other persons; Interest in a controlled Corporation *(Notes 2 and 5)* | 469,200,000 | 58.65% |
| Bright Creator Limited | Interests held jointly with other persons; Interest in a controlled corporation *(Notes 2 and 5)* | 469,200,000 | 58.65% |
| Hong Cui Development Limited | Interests held jointly with other persons; Interest in a controlled corporation *(Notes 2 and 5)* | 469,200,000 | 58.65% |
| Sun Foo Sing Development Limited | Interests held jointly with other parties *(Notes 3 and 5)* | 469,200,000 | 58.65% |
| Mr. Ho Wood Yam | Interests held jointly with other parties *(Notes 3 and 5)* | 469,200,000 | 58.65% |
| Mr. Tsui King Foo | Interests held jointly with other parties *(Notes 3 and 5)* | 469,200,000 | 58.65% |
| Ms. Tsui Yuk Yi | Interests held jointly with other parties *(Notes 3 and 5)* | 469,200,000 | 58.65% |
| Mr. Tsui Chi Kit | Interests held jointly with other parties *(Notes 3 and 5)* | 469,200,000 | 58.65% |
| Sky Gain Investments Limited | Interests held jointly with other parties *(Notes 4 and 5)* | 469,200,000 | 58.65% |
| Mr. Chow Chor Ting Anthony | Interests held jointly with other parties *(Notes 4 and 5)* | 469,200,000 | 58.65% |
| Mr. Tam Chie Sang | Interests held jointly with other parties *(Notes 4 and 5)* | 469,200,000 | 58.65% |
| Ms. Lau Lai Ngor | Interest of spouse *(Note 6)* | 469,200,000 | 58.65% |
| Ms. Lau Ngar Ching Angel | Interest of spouse *(Note 7)* | 469,200,000 | 58.65% |
| Ms. Lui Wai Har | Interest of spouse *(Note 8)* | 469,200,000 | 58.65% |
| Ms. Cho Sin Sum Fion | Interest of spouse *(Note 9)* | 469,200,000 | 58.65% |
| Ms. Chan Bik Yuk Mariana | Interest of spouse *(Note 10)* | 469,200,000 | 58.65% |
| Mr. Fong Man Wai | Interest of spouse *(Note 11)* | 469,200,000 | 58.65% |

| Name of Shareholder | Capacity/Nature | Number of shares held/ interested in | Approximate percentage of shareholding |
|---|---|---|---|
| Ms. Yu Lai Chu Eileen | Interest of spouse *(Note 12)* | 469,200,000 | 58.65% |
| Sincere Expand Limited | Beneficial interest *(Note 13)* | 53,530,000 | 6.69% |
| Richmax Investment (H.K.) Limited | Interest in a controlled corporation *(Note 13)* | 53,530,000 | 6.69% |
| Mr. Cheung Yuen Chau | Interest in a controlled corporation *(Note 13)* | 53,530,000 | 6.69% |
| Mr. David Chu | Interest in a controlled corporation *(Note 13)* | 53,530,000 | 6.69% |
| Ms. Tsang Siu Lan | Interest of spouse *(Note 14)* | 53,530,000 | 6.69% |
| Ms. Phyllis Woon Kink Cheng | Interest of spouse *(Note 15)* | 53,530,000 | 6.69% |

*Notes:*

1. Zhao Tian Ventures Limited is an investment-holding company incorporated in the BVI and owned as to 62.86%, 12.38%, 12.38% and 12.38% by Hong Cui Development Limited, Mr. Wong, Sun Foo Sing Development Limited and Sky Gain Investments Limited, respectively.

2. Ms. Liu Siu Kuen owns 50% issued shares of Bright Creator Limited, which wholly-owns Hong Cui Development Limited, whereas Hong Cui Development Limited owns 62.86% issued share capital of Zhao Tian Ventures Limited. As such, each of Ms. Liu Siu Kuen, Bright Creator Limited and Hong Cui Development Limited is deemed, or taken to be, interested in all the Shares held by Zhao Tian Ventures Limited for the purposes of the SFO.

3. Each of Mr. Ho Wood Yam, Mr. Tsui King Foo, Mr. Lam, Mr. Tsui Chi Kit and Ms. Tsui Yuk Yi owns 50%, 25%, 10%, 7.5% and 7.5% issued shares of Sun Foo Sing Development Limited, respectively.

4. Each of Mr. David Chow, Mr. Chow Chor Ting Anthony and Mr. Tam Chie Sang owns 37.5%, 37.5% and 25% issued shares of Sky Gain Investments Limited, respectively.

5. Zhao Tian Ventures Limited, Ms. Liu Siu Kuen, Bright Creator Limited, Hong Cui Development Limited, Sun Foo Sing Development Limited, Sky Gain Investments Limited, Mr. Ho Wood Yam, Mr. Tsui King Foo, Mr. Chow Chor Ting Anthony, Ms. Tsui Yuk Yi, Mr. Tsui Chi Kit and Mr. Tam Chie Sang (together with Mr. Chan, Mr. Wong, Mr. David Chow and Mr. Lam), are parties acting in concert (having the meaning ascribed to it under the Code on Takeovers and Mergers) pursuant to the concert party deed dated 25 September 2015 and the supplemental deeds dated 6 June 2016 and 23 August 2018, respectively. As such, Zhao Tian Ventures Limited, Ms. Liu Siu Kuen, Bright Creator Limited, Hong Cui Development Limited, Sun Foo Sing Development Limited, Sky Gain Investments Limited, Mr. Ho Wood Yam, Mr. Tsui King Foo, Mr. Chow Chor Ting Anthony, Ms. Tsui Yuk Yi, Mr. Tsui Chi Kit and Mr. Tam Chie Sang (together with Mr. Chan, Mr. Wong, Mr. David Chow and Mr. Lam) together control 58.65% of the entire issued share capital of the Company.

6. Ms. Lau Lai Ngor is the spouse of Mr. Chow Chor Ting Anthony and is deemed or taken to be interested in all the Shares in which Mr. Chow Chor Ting Anthony has, or is deemed to have, an interest for the purpose of the SFO.

7. Ms. Lau Ngar Ching Angel is the spouse of Mr. Wong and is deemed or taken to be interested in all the Shares in which Mr. Wong has, or is deemed to have, an interest for the purpose of the SFO.

8. Ms. Lui Wai Har is the spouse of Mr. Tsui King Foo and is deemed or taken to be interested in all the Shares in which Mr. Tsui King Foo has, or is deemed to have, an interest for the purpose of the SFO.

9. Ms. Cho Sin Sum Fion is the spouse of Mr. David Chow and is deemed or taken to be interested in all the Shares in which Mr. David Chow has, or is deemed to have, an interest for the purpose of the SFO.

10. Ms. Chan Bik Yuk Mariana is the spouse of Mr. Lam and is deemed or taken to be interested in all the Shares in which Mr. Lam has, or is deemed to have, an interest for the purpose of the SFO.

11. Mr. Fong Man Wai is the spouse of Ms. Tsui Yuk Yi and is deemed or taken to be interested in all the Shares in which Ms. Tsui Yuk Yi has, or is deemed to have, an interest for the purpose of the SFO.

12. Ms. Yu Lai Chu Eileen is the spouse of Mr. Tam Chie Sang and is deemed or taken to be interested in all the Shares in which Mr. Tam Chie Sang has, or is deemed to have, an interest for the purpose of the SFO.

13. Sincere Expand Limited is an investment-holding company incorporated in the BVI and wholly-owned by Richmax Investment (H.K.) Limited. Each of Mr. David Chu and Mr. Cheung Yuen Chan owns approximately 46.67% and 40% issued shares of Richmax Investment (H.K.) Limited, respectively. As such, each of Richmax Investment (H.K.) Limited, Mr. David Chu and Mr. Cheung Yuen Chau is deemed, or taken to be, interested in all the Shares held by Sincere Expand Limited for the purposes of the SFO.

14. Ms. Tsang Siu Lan is the spouse of Mr. David Chu and is deemed or taken to be interested in all the Shares in which Mr. David Chu has, or is deemed to have, an interest for the purpose of the SFO.

15. Ms. Phyllis Woon Kink Cheng is the spouse of Mr. Cheung Yuen Chau and is deemed or taken to be interested in all the Shares in which Mr. Cheung Yuen Chau has, or is deemed to have, an interest for the purpose of the SFO.

## Connected Transactions and Related Party Transactions

The Company had not entered into any connected transaction during the Reporting Period which is required to be disclosed under the Listing Rules. Related party transactions entered into by the Group during the Reporting Period are disclosed in Note 37 to the Financial Statements.

Other than the related party transaction disclosed in Note 37 to the Financial Statements, no transactions, arrangements, contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or his connected entity had a material interest, whether directly or indirectly, were entered into or subsisted at the end of the Reporting Period or at any time during the Reporting Period.

# Directors' Report

## 2018 Annual General Meeting and Closure of Register of Members

The forthcoming AGM will be held at Beijing House Restaurant, which is located at 2/F, Infinitus Plaza, 199 Des Voeux Road Central, Central, Hong Kong on Thursday, 23 May 2019 at 10:30 a.m.

For determining the entitlement to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Monday, 20 May 2019 to Thursday, 23 May 2019 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming 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 not later than 4:30 p.m. on Friday, 17 May 2019.

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

## Events after the Reporting Date of 31 December 2018

Details of the events after the reporting date of 31 December 2018 has been disclosed in Note 40 to the Financial Statements of this annual report. Save as disclosed therein, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2018 and up to the date of this report.

## Compliance Advisor's Interests

As at 31 December 2018, as notified by the Company's compliance advisor, Ample Capital Limited (the "Compliance Advisor"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated 20 June 2016, neither the Compliance Advisor nor its directors, employees or its close associates (as defined under the 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 Listing Rules.

On behalf of the Board
**Chan Chun Kit**
*Chairman and Chief Executive Officer*

Hong Kong, 25 March 2019

# Independent Auditor's Report

**TING HO KWAN & CHAN CPA LIMITED**

TING HO KWAN & CHAN

9th Floor, Tung Ning Building, 249-253 Des Voeux Road Central, Hong Kong

**To the Members of Li Bao Ge Group Limited**
*(Incorporated in Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Li Bao Ge Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 145, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

## Taxation

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| *Refer to note 13 to the consolidated financial statements* | |
| The Group is subject to current income tax both in Hong Kong and the People's Republic of China. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.<br><br>The Group has deferred tax assets of approximately HK$8,380,000 as at 31 December 2018. During the year, the Group has performed a review of all deferred tax assets and liabilities to ensure they have been calculated correctly and that they are substantiated by supporting documentation.<br><br>We identified the amount of deferred tax assets as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, together with the judgement associated with the assessment of whether deferred tax assets will be utilised in future periods given the operation cycle of restaurant business and the difficulty in estimating when and where taxable profits will arise within the Group. | We assessed and formed our own views on the key judgements with respect to the tax position and found that the judgements made by the management were in line with our views. We have also assessed the adequacy and appropriateness of the current income tax provision and the deferred tax assets by discussing with the management to understand the assumptions and estimation behind and testing the calculations and payments.<br><br>Where the recoverability of deferred tax assets is dependent on future profits, we challenged and evaluated the reasonableness of the Group's management's estimates and forecast used by using information that we gathered and our knowledge of the restaurant industry and determined that they are being made on a consistent basis to previous years.<br><br>We found no material misstatements from our testing. |

## Provision for reinstatement costs

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| *Refer to note 30 to the consolidated financial statements* | |
| Provision for reinstatement costs amounting to approximately HK$4,823,000 is estimated by the Group management at the inception of leasing properties with reinstatement clause and this will be reassessed at each reporting date with reference to the latest available quotation from independent contractors.<br><br>This assessment involves significant judgements made by the management and is therefore identified as a key audit matter. | We assessed the adequacy of reinstatement cost provision by reviewing the latest quotation from independent contractors.<br><br>We also recalculated the provision and evaluated the key assumptions adopted by the management through reviewing the terms of the operating leases and assessing the reliability of the Group's management's past assumptions and best estimates.<br><br>Based on the available evidence obtained, we found the management's assumptions and estimates in relation to the provision of reinstatement costs to be reasonable and consistent with the Group's accounting policy. |

## Carrying value of property, plant and equipment

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| *Refer to note 16 to the consolidated financial statements* | |
| The carrying value of the Group's property, plant and equipment as at 31 December 2018 was approximately HK$49,842,000 and the related depreciation charge for the year ended 31 December 2018 was approximately HK$16,507,000.<br><br>Depreciation rates, useful lives and the carrying value of property, plant and equipment are reviewed annually by the management. The Group carries these assets at cost less accumulated depreciation and any accumulated impairment. Such review takes into account any unexpected adverse changes in circumstances or events, current and forecast market values, including declines in projected operating results, negative industry or economic trends. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.<br><br>We identified the above assessment of property, plant and equipment as a key audit matter due to its significance in amount and a high degree of management judgement involved in the assessment. | We have reviewed the management's estimates and assertions regarding, estimated useful lives and residual values of the property, plant and equipment as well as the management's plan for the future maintenance or decoration on the restaurant premises.<br><br>We have discussed the current status of leasehold improvements of each restaurant with the management team regarding any indicator of possible impairment identified.<br><br>We assessed the reasonableness of management's assumptions and critical judgements by using the past restaurant operation experiences within the Group.<br><br>We concluded that management's conclusion and estimates on assessing the carrying value of property, plant and equipment to be consistent with the available evidence. |

## Other Information

The directors of the Company are responsible for the Other Information. The Other Information comprises all information in the annual report, but does not include the consolidated financial statements and our auditor's report thereon ("the Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# Independent Auditor's Report (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chan Shu Kin.

**TING HO KWAN & CHAN CPA LIMITED**
Certified Public Accountants
Chan Shu Kin
Practising Certificate Number: P01297

9/F., Tung Ning Building,
249-253 Des Voeux Road Central,
HONG KONG
25 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Revenue** | 8 | **360,509** | 307,001 |
| Other income | 8 | **2,041** | 2,322 |
| Other losses | 9 | **(97)** | (6) |
| Cost of materials consumed | | **(119,946)** | (91,066) |
| Employee benefits expense | 10 | **(86,196)** | (65,779) |
| Depreciation | 16 | **(16,507)** | (12,107) |
| Other expenses | 11 | **(132,068)** | (109,690) |
| **Operating profit** | | **7,736** | 30,675 |
| Listing expenses | | **(2,235)** | – |
| Finance costs | 12 | **(494)** | (566) |
| **Profit before income tax** | | **5,007** | 30,109 |
| Income tax expense | 13 | **(2,745)** | (6,921) |
| **Profit for the year attributable to owners of the Company** | | **2,262** | 23,188 |
| Other comprehensive (expense)/income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising from translation of financial statements of foreign operations | | **(3,264)** | 1,219 |
| **Total comprehensive (expense)/income for the year attributable to owners of the Company** | | **(1,002)** | 24,407 |
| Basis earnings per share | | **HK cent 0.28** | HK cent 2.90 |

The notes on pages 68 to 145 form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

*As at 31 December 2018*

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **49,842** | 54,934 |
| Rental deposits | 21 | **19,284** | 17,035 |
| Deposits placed for life insurance policies | 17 | **2,048** | 5,742 |
| Deposits paid for property, plant and equipment | | **–** | 5,578 |
| Deferred tax assets | 31 | **8,380** | 6,050 |
| | | **79,554** | 89,339 |
| **Current assets** | | | |
| Inventories | 19 | **15,722** | 12,434 |
| Trade receivables | 20 | **4,014** | 9,474 |
| Deposits, prepayments and other receivables | 21 | **9,284** | 8,406 |
| Current tax recoverable | | **1,238** | 770 |
| Pledged bank deposits | 22 | **11,002** | 11,001 |
| Cash and cash equivalents | 23 | **60,447** | 67,494 |
| | | **101,707** | 109,579 |
| **Total assets** | | **181,261** | 198,918 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 24 | **8,000** | 8,000 |
| Reserves | | **115,283** | 128,398 |
| **Total equity** | | **123,283** | 136,398 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deposits received | 26 | **–** | 69 |
| Contract liabilities | 27 | **25** | – |
| Obligations under finance leases | 29 | **67** | 262 |
| Provision for reinstatement costs | 30 | **4,823** | 3,939 |
| | | **4,915** | 4,270 |

# Consolidated Statement of Financial Position (continued)

*As at 31 December 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | 25 | 7,365 | 9,225 |
| Accruals, provisions and deposits received | 26 | 18,386 | 32,108 |
| Contract liabilities | 27 | 15,860 | – |
| Bank borrowings | 28 | 10,567 | 13,776 |
| Obligations under finance leases | 29 | 195 | 192 |
| Current tax payable | | 690 | 2,949 |
| | | 53,063 | 58,250 |
| **Total liabilities** | | 57,978 | 62,520 |
| **Total equity and liabilities** | | 181,261 | 198,918 |
| **Net current assets** | | 48,644 | 51,329 |

These consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2019 and are signed on its behalf by:

**CHAN Chun Kit**
*Director*

**WONG Ka Wai**
*Director*

The notes on pages 68 to 145 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2018*

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital<br>*HK$'000* | Share premium<br>*HK$'000* | Other reserves *(note 33)*<br>*HK$'000* | Exchange translation reserve<br>*HK$'000* | Retained profits<br>*HK$'000* | Total<br>*HK$'000* |
| **Balance as at 1 January 2017** | 8,000 | 55,134 | 42,396 | (2,146) | 15,407 | 118,791 |
| Profit for the year | – | – | – | – | 23,188 | 23,188 |
| Currency translation differences | – | – | – | 1,219 | – | 1,219 |
| Total comprehensive income for the year | – | – | – | 1,219 | 23,188 | 24,407 |
| Dividend paid | – | – | – | – | (6,800) | (6,800) |
| **Balance as at 31 December 2017** | 8,000 | 55,134 | 42,396 | (927) | 31,795 | 136,398 |
| **Balance as at 31 December 2017** | **8,000** | **55,134** | **42,396** | **(927)** | **31,795** | **136,398** |
| Change in accounting policy – HKFRS 9 | **–** | **–** | **–** | **–** | **(113)** | **(113)** |
| **Balance as at 1 January 2018 (restated)** | **8,000** | **55,134** | **42,396** | **(927)** | **31,682** | **136,285** |
| Profit for the year | **–** | **–** | **–** | **–** | **2,262** | **2,262** |
| Currency translation differences | **–** | **–** | **–** | **(3,264)** | **–** | **(3,264)** |
| Total comprehensive (expense)/ income for the year | **–** | **–** | **–** | **(3,264)** | **2,262** | **(1,002)** |
| Dividend paid *(note 14)* | **–** | **–** | **–** | **–** | **(12,000)** | **(12,000)** |
| **Balance as at 31 December 2018** | **8,000** | **55,134** | **42,396** | **(4,191)** | **21,944** | **123,283** |

The notes on pages 68 to 145 form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 23(b) | 21,051 | 37,846 |
| Income tax paid, net | | (7,730) | (6,653) |
| **Net cash generated from operating activities** | | 13,321 | 31,193 |
| **Investing activities** | | | |
| Interest received | | 157 | 342 |
| Purchases of property, plant and equipment | | (5,931) | (34,675) |
| Refund from life insurance policies | | 3,735 | – |
| Deposits paid for life insurance policies | | (205) | (203) |
| **Net cash used in investing activities** | | (2,244) | (34,536) |
| **Financing activities** | | | |
| Interest paid | 23(c) | (494) | (566) |
| Dividends paid | 14 | (12,000) | (6,800) |
| Repayments of bank borrowings | 23(c) | (3,209) | (5,454) |
| Repayments of finance lease obligations | 23(c) | (192) | (235) |
| **Net cash used in financing activities** | | (15,895) | (13,055) |
| **Net decrease in cash and cash equivalents** | | (4,818) | (16,398) |
| **Cash and cash equivalents at beginning of the year** | 23(a) | 67,494 | 83,587 |
| Effect of foreign exchange rate changes | | (2,229) | 305 |
| **Cash and cash equivalents at end of the year** | 23(a) | 60,447 | 67,494 |

The notes on pages 68 to 145 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2018*

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

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

The Company's immediate and ultimate holding company is Zhao Tian Ventures Limited ("Zhao Tian"), a company incorporated in the British Virgin Islands (the "BVI").

## 2 Statement of Compliance with Hong Kong Financial Reporting Standards

These consolidated financial statements 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 ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A summary of significant accounting policies adopted by the Group is set out in note 3.

The HKICPA has issued certain new, revised HKFRSs and interpretation that are first effective or available for early adoption for the current accounting period of the Group. Note 4 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.

## 3 Summary of Significant Accounting Policies

### 3.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The 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 where otherwise indicated.

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

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 6.

The consolidated financial statements have been prepared on a going concern basis as at 31 December 2018, as the directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the ability to generate funds internally.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 3 Summary of Significant Accounting Policies (continued)

### 3.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

Investments in subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 3.6), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### 3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO") of the Group who makes strategic decisions.

## 3 Summary of Significant Accounting Policies (continued)

### 3.4 Foreign currency transactions

#### *(a) Functional and presentation currency*

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the Company's functional and presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income. Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'other gains and losses'.

#### *(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of this consolidated statement of financial position;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

## 3 Summary of Significant Accounting Policies (continued)

### 3.4 Foreign currency transactions (continued)

#### *(c) Group companies (continued)*

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 3 Summary of Significant Accounting Policies (continued)

### 3.5 Property, plant and equipment

Property, plant and equipment other than crockery, utensils and linen are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values, if any, over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | Shorter of 5 to 8 years and the unexpired lease term |
| Furniture, fixtures and equipment | 3 to 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Initial expenditure incurred for crockery, utensils and linens is capitalised and no depreciation is provided thereon. The cost of subsequent replacement for these items is recognised in profit or loss when incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 16).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains and losses' in the consolidated statement of profit or loss and other comprehensive income.

### 3.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 3 Summary of Significant Accounting Policies (continued)

### 3.7 Financial assets

***Accounting policy applicable after 1 January 2018***

*(a) Classification and measurement of financial assets*

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's rental deposits, deposits placed for life insurance policies, trade receivables, deposits and other receivables, pledged bank deposits and cash and cash equivalents are subsequently measured at amortised cost.

Contingent consideration receivable is subsequently measured at fair value through profit or loss.

## 3 Summary of Significant Accounting Policies (continued)

### 3.7 Financial assets (continued)

***Accounting policy applicable after 1 January 2018 (continued)***

*(b) Amortised cost and interest income*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit loss ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

## 3 Summary of Significant Accounting Policies (continued)

### 3.7 Financial assets (continued)

***Accounting policy applicable prior 1 January 2018***

(a) *Classification and measurement of financial assets*

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise "rental deposits", "deposits placed for life insurance policies", "trade receivables", "deposits and other receivables", "pledged bank deposits" and "cash and cash equivalents" in the consolidated statement of financial position.

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

### 3.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

## 3 Summary of Significant Accounting Policies (continued)

### 3.9 Credit losses and impairment of financial assets carried at amortised cost

***Accounting policy applicable after 1 January 2018***

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

– financial assets measured at amortised cost (including rental deposits, deposits placed for life insurance policies, trade receivables, deposits and other receivables, cash and cash equivalents and pledged bank deposits)

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

## 3 Summary of Significant Accounting Policies (continued)

### 3.9 Credit losses and impairment of financial assets carried at amortised cost (continued)

***Accounting policy applicable after 1 January 2018 (continued)***

*Measurement of ECLs (continued)*

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

## 3 Summary of Significant Accounting Policies (continued)

### 3.9 Credit losses and impairment of financial assets carried at amortised cost (continued)

***Accounting policy applicable after 1 January 2018 (continued)***

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

## 3 Summary of Significant Accounting Policies (continued)

### 3.9 Credit losses and impairment of financial assets carried at amortised cost (continued)

***Accounting policy applicable after 1 January 2018 (continued)***

*Significant increases in credit risk (continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVTOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Write-off policy*

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 3 Summary of Significant Accounting Policies (continued)

### 3.9 Credit losses and impairment of financial assets carried at amortised cost (continued)

***Accounting policy applicable prior 1 January 2018***

Prior to 1 January 2018, the Group assesses at each reporting date whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in consolidated statement of profit or loss and other comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

## 3 Summary of Significant Accounting Policies (continued)

### 3.10 Contract assets and Contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 3.22) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECLs") in accordance with the policy set out in note 3.9 and are reclassified to receivables when the right to the consideration has become unconditional (see note 3.11).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 3.22). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 3.22).

***Policy prior to 1 January 2018***

In the comparative period, amounts received before the catering services were rendered to customers were presented as "Receipts in advance" and "Deposit received for banquets" under "Accruals and provisions and deposits received". These balances have been reclassified on 1 January 2018 as shown in note 27.

### 3.11 Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses. See Note 3.7 for further information about the Group's accounting for trade and other receivables and Note 3.9 for a description of the Group's impairment policies.

### 3.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are assessed for expected credit losses ("ECLs") in accordance with the policy set out in note 3.9.

## 3 Summary of Significant Accounting Policies (continued)

### 3.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 3.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost.

### 3.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facilities to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

## 3 Summary of Significant Accounting Policies (continued)

### 3.16 Borrowing costs

All borrowing costs are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred since no borrowing costs are directly attributable to the acquisition, construction or production of qualified assets.

### 3.17 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

#### *(a) Current tax*

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred tax*

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

## 3 Summary of Significant Accounting Policies (continued)

### 3.17 Current and deferred tax (continued)

#### *(c) Offsetting*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 3.18 Employee benefits

#### *(a) Pension obligation*

The Group operates a defined contribution plan, the mandatory provident fund scheme ("MPF") in Hong Kong, the assets of which are generally held in separate trustee administered funds.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund on a reduction in the future payments is available.

The full-time employees of the Group in the PRC are covered by various government-sponsored basic pension insurance under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

The Group's contributions are charged to the consolidated statement of profit or loss and other comprehensive income in the period they incurred.

## 3 Summary of Significant Accounting Policies (continued)

### 3.18 Employee benefits (continued)

***(b) Housing funds, medical insurances and other social insurances***

The PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period, and recognised as employee benefit expense when they are due.

***(c) Employee leave entitlements***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

***(d) Termination benefits***

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the Group has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the reporting date are discounted to their present value.

***(e) Bonus plans***

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 3 Summary of Significant Accounting Policies (continued)

### 3.18 Employee benefits (continued)

#### *(f) Long service payments*

The Group's net obligation in respect of long service payments to its employees in Hong Kong upon cessation of their employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefits that the employees have earned in return for their services in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement schemes that are attributed to contributions made by the Group. The discount rate is the yield at the reporting date of Hong Kong Government's Exchange Fund Notes which have terms to maturity approximating the terms of the related liability. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in other comprehensive income in the period in which they occur in the consolidated statement of profit or loss and other comprehensive income.

### 3.19 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first out method (2017: weighted average method). This change in the accounting estimate has no material effect on the Group's consolidated financial statements. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### 3.20 Other provisions and contingent liabilities

Other provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 3.21 Provision for reinstatement costs

Provision for reinstatement costs represents the present value of the estimated cost for the restoration work of the Group's leased retail shops agreed to be carried out upon the expiry of the relevant leases using a risk-free pre-tax interest rate. The provision has been determined by the directors based on their best estimates. The related reinstatement costs have been included as leasehold improvements in the consolidated statement of financial position.

## 3 Summary of Significant Accounting Policies (continued)

### 3.22 Revenue recognition

Previously, under HKAS 18, revenue from sale of goods was generally recognised at a point in time when the following conditions were satisfied:

(a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) The Group retained neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) The amount of revenue could be measured reliably;

(d) It is probable that the economic benefits associated with the transaction would flow to the Group; and

(e) The costs incurred or to be incurred in respect of the transaction could be measured reliably.

Under HKFRS 15, revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specially, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. The Group can recognise revenue over time if the Group meets one of the following conditions:

– provides the benefits which are received and consumed simultaneously by the customer as the Group performs;

– creates or enhances an asset that the customer controls as the Group performs; or

– does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

## 3 Summary of Significant Accounting Policies (continued)

### 3.22 Revenue recognition (continued)

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue recognition policies are as follows:

***(a) Revenue from restaurant operations***

Revenue is recognised at a particular point in time when customers have control over the goods, which is generally the time when the related catering services are rendered to customers.

***(b) Revenue from sale of food ingredients***

Revenue from sale of food ingredients consists of sales of dried foods sold to third parties and is recognised at a particular point in time when customers have control over the goods, which generally coincides with the date of delivery.

***(c) Interest income***

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3.9).

## 3 Summary of Significant Accounting Policies (continued)

### 3.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Item of property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### 3.24 Dividend distribution

Dividend distribution to the members of the Company and its subsidiaries is recognised as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the shareholders or director, where appropriate, of the respective companies.

### 3.25 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be acquired without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

## 3 Summary of Significant Accounting Policies (continued)

### 3.26 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third party and the other entity is an associate of third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 4 Changes in Accounting Policies

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2018. The Group has adopted the following new and revised standards for the first time for the current year's consolidated financial statements:

| | | |
|---|---|---|
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from contracts with customers | 1 January 2018 |
| Amendments to HKFRS 2 | Share-based payment: Classification and measurement of share-based payment transactions | 1 January 2018 |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts | 1 January 2018 |
| Amendments to HKAS 40 | Transfers of investment property | 1 January 2018 |
| HK(IFRIC) Interpretation 22 | Foreign currency transactions and advance consideration | 1 January 2018 |
| Annual Improvements 2014-2016 Cycles | | 1 January 2018 |

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other newly adopted standards or amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

## 4 Changes in Accounting Policies (continued)

The following tables show the adjustments recognised for each individual line items. The adjustments are explained in more details below.

| | 31 December 2017 As originally presented HK$'000 | HKFRS 9 HK$'000 | HKFRS 15 HK$'000 | 1 January 2018 Restated HK$'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 54,934 | – | – | **54,934** |
| Rental deposits | 17,035 | – | – | **17,035** |
| Deposits placed for life insurance policies | 5,742 | – | – | **5,742** |
| Deposits paid for property, plant and equipment | 5,578 | – | – | **5,578** |
| Deferred tax assets | 6,050 | 32 | – | **6,082** |
| | 89,339 | 32 | – | **89,371** |
| **Current assets** | | | | |
| Inventories | 12,434 | – | – | **12,434** |
| Trade receivables | 9,474 | (145) | – | **9,329** |
| Deposits, prepayments and other receivables | 8,406 | – | – | **8,406** |
| Current tax recoverable | 770 | – | – | **770** |
| Pledged bank deposits | 11,001 | – | – | **11,001** |
| Cash and cash equivalent | 67,494 | – | – | **67,494** |
| | 109,579 | (145) | – | **109,434** |
| **Total assets** | 198,918 | (113) | – | **198,805** |

## 4 Changes in Accounting Policies (continued)

The following tables show the adjustments recognised for each individual line items. The adjustments are explained in more details below. (continued)

| | 31 December 2017 As originally presented *HK$'000* | HKFRS 9 *HK$'000* | HKFRS 15 *HK$'000* | 1 January 2018 Restated *HK$'000* |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Equity attributable to owners of the Company | | | | |
| Share capital | 8,000 | – | – | **8,000** |
| Reserves | 128,398 | (113) | – | **128,285** |
| **Total equity** | 136,398 | (113) | – | **136,285** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Deposits received | 69 | – | (69) | **–** |
| Contract liabilities | – | – | 69 | **69** |
| Obligations under finance leases | 262 | – | – | **262** |
| Provision for reinstatement costs | 3,939 | – | – | **3,939** |
| | 4,270 | – | – | **4,270** |
| **Current liabilities** | | | | |
| Trade payables | 9,225 | – | – | **9,225** |
| Accruals, provisions and deposits received | 32,108 | – | (14,210) | **17,898** |
| Contract liabilities | – | – | 14,210 | **14,210** |
| Bank borrowings | 13,776 | – | – | **13,776** |
| Obligations under finance leases | 192 | – | – | **192** |
| Current tax payable | 2,949 | – | – | **2,949** |
| | 58,250 | – | – | **58,250** |
| **Total liabilities** | 62,520 | – | – | **62,520** |
| **Total equity and liabilities** | 198,918 | (113) | – | **198,805** |

There is no impact on the consolidated statement of profit or loss and other comprehensive income by adopting HKFRS 9 and HKFRS 15.

## 4 Changes in Accounting Policies (continued)

### HKFRS 9 Financial Instruments

***Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"***

HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECLs") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e, applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have been derecognised as at 1 January 2018 determined under HKFRS 9. The differences between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 (determined under HKFRS 9) are recognised in the opening retained profits as at 1 January 2018, without restating the financial information for the year ended 31 December 2017.

## 4 Changes in Accounting Policies (continued)

### HKFRS 9 Financial Instruments (continued)

***Summary of effects arising from initial application of HKFRS 9***

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and Hong Kong Accounting Standard 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”), as the date of initial application on 1 January 2018.

| | Financial assets/ Financial liabilities | Original measurement category under HKAS 39 | New measurement category under HKFRS 9 | Original carrying amount under HKAS 39 *HK$'000* | Additional loss allowance recognised under HKFRS 9 and the respective deferred tax impact *HK$'000* | New carrying amount under HKFRS 9 *HK$'000* |
|---|---|---|---|---|---|---|
| 1. | Rental deposits | Loans and receivables | Financial assets at amortised cost | 17,035 | – | 17,035 |
| 2. | Deposits placed for life insurance policies | Loans and receivables | Financial assets at amortised cost | 5,742 | – | 5,742 |
| 3. | Trade receivables | Loans and receivables | Financial assets at amortised cost | 9,474 | (145) | 9,329 |
| 4. | Deposits and other receivables | Loans and receivables | Financial assets at amortised cost | 6,687 | – | 6,687 |
| 5. | Pledged bank deposits | Loans and receivables | Financial assets at amortised cost | 11,001 | – | 11,001 |
| 6. | Cash and cash equivalent | Loans and receivables | Financial assets at amortised cost | 67,494 | – | 67,494 |
| 7. | Trade payables | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 9,225 | – | 9,225 |
| 8. | Accruals and deposits received | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 14,350 | – | 14,350 |
| 9. | Bank borrowings | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 13,776 | – | 13,776 |
| 10. | Obligations under finance leases | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 454 | – | 454 |
| | | | | | (145) | |
| | **Recognition of deferred tax assets** | | | | 32 | |
| | **Effects on total equity** | | | | (113) | |

## 4 Changes in Accounting Policies (continued)

### HKFRS 9 Financial Instruments (continued)

***Summary of effects arising from initial application of HKFRS 9 (continued)***

There were no financial liabilities which the Group had previously designated as at fair value through profit or loss ("FVTPL") or measured at amortised cost under HKAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of HKFRS 9.

***Changes to the impairment allowances calculation***

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record provisions/impairment allowances for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowances are based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowances are based on the change in the ECLs over the life of the asset.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are made based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group has applied HKFRS 9 simplified approach to measure ECL using a lifetime ECL for trade receivables. The ECL on these assets is assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

## 4 Changes in Accounting Policies (continued)

### HKFRS 9 Financial Instruments (continued)

***Changes to the impairment allowances calculation (continued)***

For deposits, prepayments and other receivables, pledged bank deposits and bank balances, the Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment if whether lifetime ECL should be recognised as based on significant increase in the likelihood or risk of a default occurring since initial recognition. In the current year, the deposits, prepayments and other receivables are measured on 12 months ECL basis and there had been no significant increase in credit risk since initial recognition. The ECL for pledged bank deposits and bank balances is insignificant because such assets are placed in banks with good reputation and there has been no recent history of default in relation to these banks.

As at 1 January 2018, the additional credit loss allowance of approximately HK$145,000, together with the recognition of the corresponding deferred tax assets of approximately HK$32,000, totaling approximately HK$113,000 has been recognised against retained profits as at 1 January 2018. The loss allowance is charged against trade receivables.

The additional impairment loss allowance upon the initial application of HKFRS 9 as disclosed above results entirely from a change in the measurement attribute of the loss allowance relating to the trade receivables.

No loss allowance provision was recognised for deposits, prepayments and other receivables, pledged bank deposits and bank balances as at 31 December 2017 and 1 January 2018 respectively. The loss allowance for trade receivables as at 31 December 2018 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

| | **Loss allowance for trade receivables** ***HK$'000*** |
|---|---|
| Closing balance as at 31 December 2017 | – |
| Amounts remeasured through opening retained profits | 145 |
| Opening balance as at 1 January 2018 | 145 |

Except for the above, the adoption of HKFRS 9 does not have any material impact on the Group's consolidated financial statements.

## 4 Changes in Accounting Policies (continued)

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits as at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

Except for the reclassification effect and the presentation and disclosure requirements below, the adoption of HKFRS 15 did not have significant financial impact on the consolidated financial statements.

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers of approximately HK$9,971,000 and HK$4,308,000 were reclassified from receipts in advance and deposits received for banquets respectively under accruals, provisions and deposits received to contract liabilities. The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the previous HKAS 18. Under HKFRS 15, the Group has disaggregated revenue recognised from contracts with customers by the timing of revenue recognition.

Other than the contract liabilities of approximately HK$15,885,000 separately disclosed under HKFRS 15 where these would be treated as receipts in advance or deposits received for banquets included in accruals, provisions and deposits received under the superseded standards of HKAS 18 and HKAS 11, there was no significant impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018 if these superseded standards had continued to apply to 2018 instead of HKFRS 15.

### HK(IFRIC) Interpretation 22 Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial results of the Group.

## 4 Changes in Accounting Policies (continued)

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (see note 42).

## 5 Financial Risk Management

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge its risk exposures to changes in foreign exchange rates and interest rates.

***(a) Market risk***

*(i) Foreign exchange risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the Group entities' functional currency. 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 is insignificant. Thus there is no significant exposure expected on RMB transactions and balances. Hence, the Group does not have any material foreign exchange exposure. The Group has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuations for the years under review. As at 31 December 2017 and 2018, the Group did not have any outstanding hedging instruments.

*(ii) Cash flow and fair value interest rate risk*

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest rate risk arises from bank deposits and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates. The interest rate profile of borrowings is disclosed in Note 28. The bank deposits generate interest at the prevailing market interest rates.

The Group is exposed to cash flow interest rate risk in relation to bank balances and bank borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and the Best Lending Rate arising from the bank borrowings.

The sensitivity analyses below have been determined based on the exposure to effective interest rates for the variable-rate bank borrowings at the end of each reporting period.

## 5 Financial Risk Management (continued)

### 5.1 Financial risk factors (continued)

#### *(a) Market risk (continued)*

*(ii) Cash flow and fair value interest rate risk (continued)*

As at 31 December 2018, if the effective interest rates on approximately HK$10,567,000 bank borrowings had been 1%, 2%, 3% higher/lower with all other variables held constant, profit before tax for the year would have been approximately HK$99,000, HK$198,000, HK$296,000 lower/higher respectively, mainly as a result of higher/lower finance costs on floating rate borrowings.

As at 31 December 2017, if the effective interest rates on approximately HK$13,766,000 bank borrowings had been 1%, 2%, 3% higher/lower with all other variables held constant, profit before tax for the year would have been approximately HK$144,000, HK$288,000, HK$432,000 lower/higher respectively, mainly as a result of higher/lower finance costs on floating rate borrowings.

#### *(b) Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from bank deposits is limited because the Group places their deposits to certain reputable banks with a minimum rating of "investment grade" ranked by an independent party. See Note 23 for further disclosure on credit risk.

*Trade receivables*

*Before adoption of HKFRS 9 as at 1 January 2018*

Majority of the Group's revenue is on cash basis, therefore there is no significant concentration of credit risk. In addition, the Group reviews the recoverable amount of each individual trade receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

*After adoption of HKFRS 9 as at 1 January 2018*

The Group applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

## 5 Financial Risk Management (continued)

### 5.1 Financial risk factors (continued)

#### *(b) Credit risk (continued)*

*Trade receivables (continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

| Status | Expected loss rate % | Gross carrying amount *HK$'000* | Loss allowance *HK$'000* |
|---|---|---|---|
| Current | 1%–2% | 3,343 | 44 |
| 0 to 30 days past due | 4%–10% | 551 | 36 |
| 31 to 60 days past due | 6%–11% | 193 | 12 |
| Over 60 days past due | 15%–25% | 26 | 7 |
| | | 4,113 | 99 |

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

*Comparative information under HKAS 39*

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. As at 31 December 2017, trade receivables of approximately HK$1,185,000 were past due but not impaired. Trade receivables that were past due but not impaired mainly related to receivables from corporate or individual customers which have a long business relationship with the Group. Based on past experience, the directors are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable.

## 5 Financial Risk Management (continued)

### 5.1 Financial risk factors (continued)

#### *(b) Credit risk (continued)*

*Comparative information under HKAS 39 (continued)*

The ageing analysis of trade receivables which are past due but not impaired is as follows:

| | 2017<br>*HK$'000* |
|---|---|
| 0 to 30 days | 1,092 |
| 31 to 60 days | 29 |
| 61 to 90 days | 22 |
| Over 90 days | 42 |
| | 1,185 |

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

#### *(c) Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term. Management believes that there is no significant liquidity risk as the Group is able to generate net cash inflow from operating activities and has sufficient committed facilities to fund its operations and debt servicing requirements and to satisfy its future working capital and other financing requirements from its operation cash flows and available bank financing.

## 5 Financial Risk Management (continued)

### 5.1 Financial risk factors (continued)

#### *(c) Liquidity risk (continued)*

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at each reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year *HK$'000* | Between 1 and 2 years *HK$'000* | Between 2 and 5 years *HK$'000* |
|---|---|---|---|
| **At 31 December 2018** | | | |
| Trade payables | **7,365** | **–** | **–** |
| Accruals and deposits received | **16,421** | **–** | **–** |
| Bank borrowings | **10,899** | **–** | **–** |
| Obligations under finance leases | **204** | **67** | **–** |

| | Less than 1 year *HK$'000* | Between 1 and 2 years *HK$'000* | Between 2 and 5 years *HK$'000* |
|---|---|---|---|
| **At 31 December 2017** | | | |
| Trade payables | 9,225 | – | – |
| Accruals and deposits received | 14,350 | – | – |
| Bank borrowings | 14,432 | – | – |
| Obligations under finance leases | 208 | 202 | 68 |

## 5 Financial Risk Management (continued)

### 5.1 Financial risk factors (continued)

#### *(c) Liquidity risk (continued)*

The following table summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's net assets, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

| | Maturity Analysis – term loans subject to a repayment on demand clause based on scheduled repayments | | |
|---|---|---|---|
| | **Within 1 year** *HK$'000* | **Over 1 year but less than 2 years** *HK$'000* | **Over 2 years but less than 5 years** *HK$'000* |
| At 31 December 2018 | **8,396** | **2,503** | **–** |
| At 31 December 2017 | 8,668 | 3,294 | 2,470 |

## 5 Financial Risk Management (continued)

### 5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders 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 shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as interest-bearing debts divided by capital. Debts are calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position). Capital represents equity attributable to owners of the Company.

The Group's strategy, which was unchanged during the years, was to lower the gearing ratio to an acceptable level. The gearing ratios at 31 December 2017 and 2018 were as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank borrowings *(note 28)* | **10,567** | 13,776 |
| Obligations under finance leases *(note 29)* | **262** | 454 |
| Total borrowings | **10,829** | 14,230 |
| Equity attributable to owners of the Company | **123,283** | 136,398 |
| Gearing ratio | **8.78%** | 10.43% |

### 5.3 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values as at 31 December 2017 and 2018.

## 6 Critical Accounting Estimates and Judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Useful lives of property, plant and equipment

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting date.

Useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

### (b) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on fair value less costs of disposal or value-in-use valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing:

(i) whether an event has occurred that may indicate that the related asset values may not be recoverable;

(ii) whether the carrying amount of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and

(iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of its operations.

## 6 Critical Accounting Estimates and Judgements (continued)

### (c) Income tax

The Group is subject to current tax in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantively enacted tax rates (and laws) and the best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. In assessing the amount of deferred tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and income tax expense would need to be made. In addition, management will revisit the assumptions and profit projections at each reporting date.

### (d) Provision for reinstatement costs

Provision for reinstatement costs is estimated at the inception of leasing property with reinstatement clause and reassessed at each reporting date with reference to the latest available quotation from independent contractors. Estimation based on current market information may vary over time and could differ from the actual reinstatement cost upon closures or relocation of existing premises occupied by the Group.

## 6 Critical Accounting Estimates and Judgements (continued)

### (e) Estimated impairment of trade receivables

Before the adoption of HKFRS 9, when there is objective evidence of impairment loss, the Group takes into consideration of estimation of future cash flows. The amount of the impairment loss is measured as the different between the asset's carry amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the assets' original effective interest rate (i.e. the effective interest rate computed at initial recognised). When the actual future cash flows are less than expected, a material impairment loss may arise.

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of loss allowance for trade receivables based on the credit risk of trade receivables. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. The assessment of the credit risk of trade receivables involves high degree of estimation and uncertainty as the management of the Group estimates the loss rates for debtors by using forward-looking information. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise accordingly.

## 7 Segment Information

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

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

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

For the years ended 31 December 2017 and 2018, there are no single external customers contributed more than 10% revenue of the Group.

## 7 Segment Information (continued)

### Geographical information

The following tables present revenue from external customers for the years ended 31 December 2017 and 2018 and certain non-current assets information as at 31 December 2017 and 2018 by geographic area.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Revenue from external customers** | | |
| Hong Kong | **183,426** | 186,049 |
| Mainland China | **177,083** | 120,952 |
| | **360,509** | 307,001 |

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Hong Kong | **13,086** | 13,869 |
| Mainland China | **36,756** | 41,065 |
| | **49,842** | 54,934 |

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

## 8 Revenue and Other Income

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

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

Note (i) The amounts represented the government incentive granted by the Economic Development Bureau of different districts in Mainland China to support the Group's contribution to local economy with no unfulfilled conditions or contingencies and are recognised as other income upon receipts during the year ended 31 December 2018 (2017: same).

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 7.

## 8 Revenue and Other Income (continued)

### (a) Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

| | 2018 HK$'000 |
|---|---|
| Contract liabilities *(note 27)* | 15,885 |

#### *(i) Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the current year related to carried-forward contract liabilities.

| | 2018 HK$'000 |
|---|---|
| Revenue recognised that was included in the balance of contract liabilities at the beginning of the year *(note 27)* | 11,525 |

## 9 Other Losses

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Exchange loss, net | **97** | 6 |

## 10 Employee Benefits Expense

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Wages, salaries and bonuses | **78,536** | 60,598 |
| Directors' fees | **558** | 540 |
| Pension costs - defined contribution plans *(note a)* | **7,102** | 4,641 |
| | **86,196** | 65,779 |

### (a) Pensions - defined contribution plans

The Group's net contributions to pension plans are mainly for employees in Hong Kong and Mainland China. Summary of the pension plans are as follows:

(i) The Group contributes to an MPF Scheme for its employees in Hong Kong, under which the Group and each employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a maximum of HK$1,500 (2017: HK$1,500) per month. Contribution totalling approximately HK$166,000 and HK$162,000 were payable to the MPF fund as at 31 December 2017 and 2018, respectively.

(ii) The Group's subsidiaries in Mainland China also contribute to retirement plans for its employees in Mainland China at a percentage of their salaries in compliance with the requirements of the respective municipal governments in Mainland China. The municipal governments undertake to assume the retirement benefit obligation of all existing and future retired employees of the Group in Mainland China.

## 10 Employee Benefits Expense (continued)

### (b) Directors' emoluments

The emoluments of directors for the year ended 31 December 2018 are set out below:

| | Fees | Basic salaries, allowances and benefits | Discretionary bonuses | Employer's contributions to pension scheme | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors:** | | | | | |
| CHAN Chun Kit | – | 2,024 | 820 | 18 | 2,862 |
| WONG Ka Wai | – | 248 | – | 12 | 260 |
| CHOW Yiu Pong | – | 248 | – | 12 | 260 |
| LAM Kwok Leung | – | 248 | – | 12 | 260 |
| **Independent non-executive directors:** | | | | | |
| WONG Lung Tak, Patrick | 186 | – | – | – | 186 |
| TAM Tak Kei, Raymond | 186 | – | – | – | 186 |
| LIU Chi Keung | 186 | – | – | – | 186 |
| | 558 | 2,768 | 820 | 54 | 4,200 |

## 10 Employee Benefits Expense (continued)

### (b) Directors' emoluments (continued)

The emoluments of directors for the year ended 31 December 2017 is set out below:

| | Fees<br>*HK$'000* | Basic salaries, allowances and benefits<br>*HK$'000* | Discretionary bonuses<br>*HK$'000* | Employer's contributions to pension scheme<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| CHAN Chun Kit | – | 2,073 | 170 | 18 | 2,261 |
| WONG Ka Wai | – | 240 | – | 12 | 252 |
| CHOW Yiu Pong | – | 240 | – | 12 | 252 |
| LAM Kwok Leung | – | 240 | – | 12 | 252 |
| **Independent non-executive directors:** | | | | | |
| WONG Lung Tak, Patrick | 180 | – | – | – | 180 |
| TAM Tak Kei, Raymond | 180 | – | – | – | 180 |
| LIU Chi Keung | 180 | – | – | – | 180 |
| | 540 | 2,793 | 170 | 54 | 3,557 |

No director waived or agreed to waive any emoluments during the year (2017: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year ended 31 December 2018 (2017: Nil).

### (c) Directors' retirement benefits

No retirement benefits were paid to the directors of the Company during the year ended 31 December 2018 by a defined contribution plan operated by the Group in respect of their services as directors of the Company (2017: Nil). No other retirement benefits were paid to the directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertakings (2017: Nil).

## 10 Employee Benefits Expense (continued)

### (d) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year ended 31 December 2018 (2017: Nil).

### (e) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, the Company did not pay any considerations to any third parties for making available the services of themselves as directors of the Company (2017: Nil).

### (f) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were entered into by the Company or its subsidiary undertakings in favour of the directors of the Company, a controlled body corporate or a connected entity of such directors at any time during the year (2017: Nil).

### (g) Directors' material interests in transactions, arrangements or contracts

Save for transactions disclosed elsewhere in the notes to these consolidated financial statements, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Same).

### (h) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2017 and 2018 include one director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals during the years are as follows:

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| Basic salaries, allowances and benefits | **2,479** | 2,234 |
| Discretionary bonuses | **948** | 119 |
| Employer's contribution to pension scheme | **71** | 70 |
| | **3,498** | 2,423 |

## 10 Employee Benefits Expense (continued)

### (h) Five highest paid individuals (continued)

The emoluments of the above four individuals were within the following bands:

| | Number of employees | |
|---|---|---|
| | **2018** | 2017 |
| HK$Nil – HK$1,000,000 | **3** | 4 |
| HK$1,000,001 – HK$2,000,000 | **1** | – |
| | **4** | 4 |

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the year ended 31 December 2018 (2017: Nil).

## 11 Other Expenses

Other expenses include the following items:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Auditor's remuneration | | |
| – audit services | **690** | 560 |
| – non audit services | **158** | 145 |
| Operating lease expenses | | |
| – Normal rent for premises | **51,868** | 44,371 |
| – Contingent rent for premises* | **6,180** | 6,959 |

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

## 12 Finance Costs

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Interest expense on bank borrowings *(note 23(c))* | **478** | 540 |
| Finance charges on obligations under finance leases *(note 23(c))* | **16** | 26 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **494** | 566 |

## 13 Income Tax Expense

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

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

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

## 13 Income Tax Expense (continued)

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

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

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using applicable statutory tax rates as follows:

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| Profit before income tax | **5,007** | 30,109 |
| Tax calculated at applicable statutory tax rates | **1,761** | 6,874 |
| Income not subject to tax | **(63)** | (468) |
| Expenses not deductible for tax purposes | **1,161** | 456 |
| Current tax overprovided in prior year | **(114)** | (46) |
| Deferred tax charge underprovided in prior year | **–** | 42 |
| Tax effect of temporary differences not recognised | **–** | 63 |
| Income tax expense | **2,745** | 6,921 |

## 14 Dividends

Pursuant to the Board of Directors' meeting on 25 March 2019, the Directors recommended to declare the final dividend for the year ended 31 December 2018 of HK0.50 cents per share totaling HK$4,000,000. Such recommendation is to be approved by the shareholders at the Annual General Meeting. Dividend declared after the end of the reporting period is not recognised as a liability at the end of the reporting period.

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

## 15 Earnings per Share

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

| | **2018** <br> ***HK$'000*** | 2017 <br> *HK$'000* |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company | **2,262** | 23,188 |
| **Number of shares** | | |
| Weighted average number of shares for the purpose of calculating basis earnings per share | **800,000,000** | 800,000,000 |

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

## 16 Property, Plant and Equipment

| | Leasehold improvements *HK$'000* | Furniture, fixtures and equipment *HK$'000* | Utensils, liners and uniforms *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2017 | 60,160 | 14,177 | 3,064 | 1,257 | 78,658 |
| Additions | 27,143 | 6,695 | 1,646 | 87 | 35,571 |
| Exchange alignment | 1,356 | 421 | 98 | 5 | 1,880 |
| At 31 December 2017 and 1 January 2018 | 88,659 | 21,293 | 4,808 | 1,349 | 116,109 |
| Additions | 10,560 | 1,509 | 382 | – | 12,451 |
| Exchange alignment | (1,771) | (501) | (118) | (6) | (2,396) |
| At 31 December 2018 | **97,448** | **22,301** | **5,072** | **1,343** | **126,164** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2017 | 35,954 | 11,691 | – | 477 | 48,122 |
| Charge for the year | 10,031 | 1,774 | – | 302 | 12,107 |
| Exchange alignment | 630 | 314 | – | 2 | 946 |
| At 31 December 2017 and 1 January 2018 | 46,615 | 13,779 | – | 781 | 61,175 |
| Charge for the year | 12,800 | 3,434 | – | 273 | 16,507 |
| Exchange alignment | (988) | (370) | – | (2) | (1,360) |
| At 31 December 2018 | **58,427** | **16,843** | **–** | **1,052** | **76,322** |
| **Net book value** | | | | | |
| At 31 December 2018 | **39,021** | **5,458** | **5,072** | **291** | **49,842** |
| At 31 December 2017 | 42,044 | 7,514 | 4,808 | 568 | 54,934 |

## 16 Property, Plant and Equipment (continued)

Motor vehicles include the following amounts where the Group is a lessee under finance leases:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Cost – capitalised finance leases | 919 | 1,159 |
| Accumulated depreciation | (715) | (725) |
| Net book amount | 204 | 434 |

The Group leases motor vehicles under non-cancellable finance lease agreements. The lease terms are between three and five years, and ownership of the assets lies within the Group.

| Depreciation charged for the year on | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| – Owned assets | 16,277 | 11,847 |
| – Leased assets | 230 | 260 |
| | 16,507 | 12,107 |

## 17 Deposits Placed for Life Insurance Policies

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Life insurance policy 1 | – | 1,123 |
| Life insurance policy 2 | – | 2,853 |
| Life insurance policy 3 | 2,048 | 1,766 |
| | 2,048 | 5,742 |

### Life Insurance Policy 1

In March 2013, the Group entered into a life insurance policy with an insurance company to insure an Executive Director, Mr. Chan Chun Kit. Under the policy, the beneficiary and policy holder is Great Virtue Investment Limited ("Great Virtue"), a Company's subsidiary and the total insured sum is USD200,000 (approximately HK$1,560,000). Great Virtue is required to pay an upfront deposit of USD128,200 (approximately HK$999,960) including a premium charge at inception of the policy amounting to USD8,100 (approximately HK$63,180). Great Virtue can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront deposit payment of USD128,200 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value").

In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge. The insurance company will pay Great Virtue an interest of 2.25% per annum on the outstanding Cash Value of the policy for the first year. Commencing on the 2nd year, the interest will become 2% per annum plus a premium determined by the insurance company on an annual basis.

During the year 2018, the Group has terminated the policy.

### Life Insurance Policy 2

In January 2011, the Group entered into a life insurance policy with an insurance company to insure an Executive Director, Mr. Chan Chun Kit. Under the policy, the beneficiary and policy holder is Orient Century Limited ("Orient Century"), a Company's subsidiary and the total insured sum is USD1,000,000 (approximately HK$7,800,000). Orient Century is required to pay an upfront deposit of USD333,276 (approximately HK$2,599,553) including a premium charge at inception of the policy amounting to USD19,997 (approximately HK$155,977). Orient Century can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront deposit payment of USD333,276 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge.

In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge. The insurance company will pay Orient Century an guaranteed interest of 3.9% on annum basis for first 5 years. Commencing on the 6th year, the interest will become 3% per annum plus a premium determined by the insurance company on an annual basis.

During the year 2018, the Group has terminated the policy.

## 17 Deposits Placed for Life Insurance Policies (continued)

### Life Insurance Policy 3

In April 2009, the Group entered into a life insurance policy with an insurance company to insure an Executive Director, Mr. Chan Chun Kit. Under the policy, the beneficiary and policy holder is Orient Century Limited ("Orient Century"), a Company's subsidiary and the total insured sum is USD750,000 (approximately HK$5,850,000). Orient Century is required to pay ten annual instalments of USD26,055 up to 30 April 2019 (approximately HK$203,229) including a premium charge at inception of the policy amounting to USD8,100 (approximately HK$63,180). Orient Century can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the accumulated deposit payments plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge.

In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge. The insurance company will pay Orient Century an guaranteed interest of 5.55% on annum basis for first 20 years. Commencing on the 21st year, the interest will become 3% per annum plus a premium determined by the insurance company on an annual basis.

## 18 Financial Instruments by Category

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| **Financial assets at amortised costs (2017: Loans and receivables)** | | |
| Rental deposits | **19,284** | 17,035 |
| Deposits placed for life insurance policies | **2,048** | 5,742 |
| Trade receivables | **4,014** | 9,474 |
| Deposits and other receivables | **6,764** | 6,687 |
| Pledged bank deposits | **11,002** | 11,001 |
| Cash and cash equivalents | **60,447** | 67,494 |
| | **103,559** | 117,433 |
| **Financial liabilities at amortised costs** | | |
| Trade payables | **7,365** | 9,225 |
| Accruals and deposits received | **16,421** | 14,350 |
| Bank borrowings | **10,567** | 13,776 |
| Obligations under finance leases | **262** | 454 |
| | **34,615** | 37,805 |

## 19 Inventories

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Food and beverages | **15,722** | 12,434 |

As at 31 December 2017 and 2018, there were no inventories stated at net realisable value.

## 20 Trade Receivables

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **4,113** | 9,474 |
| Less: allowance for impairment losses | **99** | – |
| Trade receivables net of allowance | **4,014** | 9,474 |

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.

## 20 Trade Receivables (continued)

The ageing analysis of trade receivables (net of allowance for impairment losses) is as follows:

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

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

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

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

## 20 Trade Receivables (continued)

The closing loss allowance for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

| | **2018** |
|---|---|
| | ***HK$'000*** |
| As at 31 December 2017 – calculated under HKAS 39 | **–** |
| Amounts restated through opening retained profits | **145** |
| Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9 | **145** |
| Loss allowance reversed in profit or loss during the year | **(43)** |
| Exchange alignment | **(3)** |
| As at 31 December 2018 | **99** |

Due to the short-term nature of the trade receivables, their carrying amounts approximate to their fair values and are denominated in HK$ or RMB, which are the functional currencies of the respective group entities. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables mentioned above. The Group does not hold any collateral as security.

## 21 Deposits, Prepayments and other Receivables

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental deposits | **19,284** | 17,035 |
| Utility deposits | **1,703** | 1,352 |
| Other deposits, prepayments and other receivables | **7,581** | 7,054 |
| | **28,568** | 25,441 |
| Less: Non-current portion – rental deposits | **19,284** | 17,035 |
| Current portion | **9,284** | 8,406 |

The carrying amounts of deposits, prepayments and other receivables approximate their fair values and are denominated in HK$ or RMB, which are the functional currencies of the respective group entities.

## 22 Pledged Bank Deposits

The balances, which were carried at the prevailing market interest rate at 0.03% to 0.35% (2017: 0.03% to 0.3%) per annum represent deposits pledged to banks to secure short-term bank borrowings (note 28) granted to the Group, and therefore classified as current assets. The pledged deposits will be released upon expiry or termination or upon the settlement of relevant bank borrowings. As at 31 December 2018 and 2017, all the pledged bank deposits were denominated in HK$.

## 23 Cash and Cash Equivalents And Other Cash Flow Information

### (a) Cash and cash equivalents comprise:

| | **2018** <br> ***HK$'000*** | 2017 <br> *HK$'000* |
|---|---|---|
| Cash at banks | **59,778** | 66,118 |
| Cash on hand | **669** | 1,376 |
| Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows | **60,447** | 67,494 |
| Maximum exposure to credit risk | **59,778** | 66,118 |

Majority of the Group's cash and cash equivalents are denominated in HK$ or RMB, which are the functional currencies of the respective group entities. Cash at banks earns interest at floating rates based on daily bank deposit rates.

### (b) Reconciliation of profit before income tax to cash generated from operations:

| | *Notes* | **2018** <br> ***HK$'000*** | 2017 <br> *HK$'000* |
|---|---|---|---|
| Profit before income tax | | **5,007** | 30,109 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | *16* | **16,507** | 12,107 |
| Finance costs | *12* | **494** | 566 |
| Interest income | *8* | **(363)** | (577) |
| Reversal of impairment loss on trade receivables | *8* | **(43)** | – |
| Premium charged on life insurance policies | | **370** | 153 |
| **Operating cash flows before changes in working capital** | | **21,972** | 42,358 |
| Changes in working capital: | | | |
| Increase in inventories | | **(3,597)** | (2,729) |
| Decrease/(increase) in trade receivables | | **5,081** | (5,550) |
| Increase in deposits, prepayments and other receivables | | **(3,845)** | (9,887) |
| (Decrease)/increase in trade payables | | **(1,723)** | 396 |
| Increase in contract liabilities | | **2,123** | – |
| (Increase)/decrease in pledged bank deposits | | **(1)** | 2,999 |
| Increase in accruals, provisions and deposits received | | **1,041** | 10,259 |
| **Cash generated from operations** | | **21,051** | 37,846 |

## 23 Cash and Cash Equivalents And Other Cash Flow Information (continued)

### (c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flow was, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bank borrowings HK$'000 | Obligations under finance leases HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 1 January 2017** | 19,230 | 689 | 19,919 |
| **Changes from financing cash flows:** | | | |
| Repayment of bank borrowings | (5,454) | – | (5,454) |
| Capital element of finance lease rentals paid | – | (235) | (235) |
| Interest element of finance lease rentals paid | – | (26) | (26) |
| Borrowing costs paid | (540) | – | (540) |
| Total changes from financing cash flows | 13,236 | 428 | 13,664 |
| **Other changes** | | | |
| Finance charges on obligations under finance leases *(note 12)* | – | 26 | 26 |
| Interest expenses *(note 12)* | 540 | – | 540 |
| Total other changes | 540 | 26 | 566 |
| **At 31 December 2017 and 1 January 2018** | 13,776 | 454 | 14,230 |
| **Changes from financing cash flows:** | | | |
| Repayment of bank borrowings | (3,209) | – | (3,209) |
| Capital element of finance lease rentals paid | – | (192) | (192) |
| Interest element of finance lease rentals paid | – | (16) | (16) |
| Borrowing costs paid | (478) | – | (478) |
| Total changes from financing cash flows | 10,089 | 246 | 10,335 |
| **Other changes** | | | |
| Finance charges on obligations under finance leases *(note 12)* | – | 16 | 16 |
| Interest expenses *(note 12)* | 478 | – | 478 |
| Total other changes | 478 | 16 | 494 |
| **At 31 December 2018** | 10,567 | 262 | 10,829 |

## 24 Share Capital

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

## 25 Trade Payables

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

| | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| 0 to 30 days | **6,795** | 8,248 |
| 31 to 60 days | **225** | 706 |
| 61 to 90 days | **171** | 47 |
| Over 90 days | **174** | 224 |
| | **7,365** | 9,225 |

The carrying amounts of trade payables approximate their fair values and are denominated in HK$ or RMB, which are the functional currencies of the respective group entities.

## 26 Accruals and Provisions and Deposits Received

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Accrued expenses | **14,759** | 12,467 |
| Other payables for purchases of property, plant and equipment | **2,648** | 4,435 |
| Temporary receipts | **385** | 485 |
| Receipts in advance *(note)* | **–** | 9,971 |
| Provision for unutilised paid annual leave | **594** | 511 |
| Total accruals and provisions | **18,386** | 27,869 |
| Deposits received for banquets *(note)* | **–** | 4,308 |
| Less: Non-current portion – deposits received for banquets | **–** | 69 |
| Current portion of deposits received | **–** | 4,239 |
| | **18,386** | 32,108 |

Note: As a result of the adoption of HKFRS 15, receipts in advance and deposits received for banquets are included in "Contract liabilities" and disclosed in note 27 (see note 4).

All of the accruals and provisions and deposits received are expected to be settled or recognised as income within one year or are repayable on demand.

The carrying amounts of accruals and provisions and deposits received approximate their fair values and are denominated in HK$ or RMB, which are the functional currencies of the respective group entities.

## 27 Contract Liabilities

The Group has recognised the following revenue-related contract liabilities.

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Current | 15,860 | – |
| Non-current | 25 | – |
| | 15,885 | – |

Contract liabilities represent the advance payments from customers, while the underlying services are not yet provided as at 31 December 2018. The portion to be recognised within one year after the end of each reporting period is classified as current liabilities in the consolidated statements of financial position.

Movement in the contract liabilities balances during the year ended 31 December 2018 is as follows:

| | 2018 HK$'000 |
|---|---|
| Carrying amount at 31 December 2017 | – |
| Reclassification from accruals, provision and deposits received | 14,279 |
| Carrying amount at 1 January 2018 | 14,279 |
| Exchange alignment | (517) |
| Revenue recognised during the year | (11,525) |
| Consideration received from customers, excluding amounts recognised as revenue during the year | 13,648 |
| Carrying amount at 31 December 2018 | 15,885 |

## 28 Bank Borrowings

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Bank borrowings due for repayment within one year – secured | **8,118** | 8,218 |
| Bank borrowings due for repayment after one year which contain a repayment on demand clause – secured | **2,449** | 5,558 |
| | **10,567** | 13,776 |

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **8,118** | 8,218 |
| Over one year but less than two years | **2,449** | 3,129 |
| Over two years but less than five years | **–** | 2,429 |
| | **10,567** | 13,776 |

The bank borrowings are exposed to interest rate changes and the contractual reprising dates are 6 months or less at each reporting date. The weighted effective interest rates of bank borrowings at the reporting date are as follows:

| | 2018 | 2017 |
|---|---|---|
| Bank borrowings | **5.00%** | 3.93% |

The current liabilities as at 31 December 2017 and 2018 include such bank loans that are not scheduled to repay within one year after the end of the reporting periods. They are classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at their own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that are classified as current liabilities are expected to be settled within one year.

The carrying amounts of current bank borrowings approximate their fair values, as the impact of discounting was not significant on the borrowings carried floating interest rate.

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

## 29 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.

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

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

## 30 Provision for Reinstatement Costs

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| At 1 January | **3,939** | 3,011 |
| Additions | **942** | 896 |
| Exchange alignment | **(58)** | 32 |
| At 31 December | **4,823** | 3,939 |
| Less: Non-current portion | **4,823** | 3,939 |
| Current portion | **–** | – |

Provision for reinstatement costs is recognised for the costs to be incurred for the reinstatement of the properties used by the Group for its operations upon expiration of the relevant leases. The Group expected that the present value of the costs approximates their undiscounted costs.

## 31 Deferred Tax Assets

The analysis of deferred tax assets is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deferred tax assets | **8,380** | 6,050 |

The movements in deferred tax assets during the current and prior years, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

### Deferred tax

| | **Decelerated tax depreciation** | **Tax losses** | **Others** | **Total** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| At 1 January 2017 | 3,572 | 1,431 | 176 | 5,179 |
| Exchange alignment | 115 | – | – | 115 |
| Credited/(charged) to consolidated statement of profit or loss and other comprehensive income *(note 13)* | 987 | (230) | (1) | 756 |
| At 31 December 2017 | 4,674 | 1,201 | 175 | 6,050 |
| Adoption of HKFRS 9 | – | – | 32 | 32 |
| At 1 January 2018 | **4,674** | **1,201** | **207** | **6,082** |
| Exchange alignment | **(107)** | **(45)** | **–** | **(152)** |
| Credited/(charged) to consolidated statement of profit or loss and other comprehensive income *(note 13)* | **339** | **2,112** | **(1)** | **2,450** |
| At 31 December 2018 | **4,906** | **3,268** | **206** | **8,380** |

## 32 Major non Cash Transactions

Additions of property, plant and equipment include reinstatement costs and deposits paid for property, plant and equipment in prior year amounting to approximately HK$942,000 (2017: HK$896,000) and HK$5,578,000 respectively, for the year ended 31 December 2018, which do not involve any cash payment.

## 33 Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 66 of the consolidated financial statements.

### Other reserves

Other reserves of the Group represent (i) the amount arising from a reorganisation of the Company in connection with the listing; (ii) wavier of amounts due to a non-controlling shareholder, related party, and ultimate controlling shareholders; (iii) the difference between the acquisition of additional equity interests from the then non-controlling shareholders and the nominal value of the shares of an existing subsidiary of the Group issued in exchange therefore prior to the listing of the Company's shares; and (iii) the difference between the consideration received on disposal of the entire equity interests of the subsidiaries and the carrying amounts of the net liabilities of the subsidiaries.

## 34 Contingencies

The Group did not have any significant contingent liabilities as at 31 December 2018 (2017: Nil).

## 35 Capital Commitments

Capital Commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Contracted for: | | |
| – purchase of property, plant and equipment | 240 | 1,780 |

## 36 Operating Lease Commitments

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

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

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

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

## 37 Related Party Transactions

### (a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with its related parties during the years:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Rental expenses paid to Richfield Develop Limited (note) | **214** | 214 |

*Note:*

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

### (b) Key management compensation

The emoluments of directors and members of key management were as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Basic salaries, allowances and benefits | **6,356** | 5,352 |
| Discretionary bonuses | **1,203** | 289 |
| Employer's contribution to pension scheme | **146** | 136 |
| | **7,705** | 5,777 |

Total remuneration is included in "Employee benefits expenses" (see note 10).

## 38 Statement of Financial Position of the Company

### (a) Company-level statement of financial position

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interest in subsidiaries | 38(c) | **10,297** | 17,368 |
| **Current assets** | | | |
| Prepayments and other receivables | | **268** | 474 |
| Pledged bank deposits | | **4,002** | 4,001 |
| Cash and cash equivalents | | **5,932** | 16,784 |
| | | **10,202** | 21,259 |
| **Total assets** | | **20,499** | 38,627 |
| **EQUITY** | | | |
| Share capital | 24 | **8,000** | 8,000 |
| Share premium | 38(b) | **55,134** | 55,134 |
| Other reserve | 38(b) | **78** | 78 |
| Accumulated losses | 38(b) | **(43,639)** | (25,471) |
| **Total equity** | | **19,573** | 37,741 |
| **Current liabilities** | | | |
| Other payables | | **926** | 886 |
| **Total liabilities** | | **926** | 886 |
| **Total equity and liabilities** | | **20,499** | 38,627 |
| **Net current assets** | | **9,276** | 20,373 |

These financial statements were approved and authorised for issue by the Board of directors on 25 March 2019 and are signed on its behalf by:

**CHAN CHUN KIT**
*Director*

**WONG KA WAI**
*Director*

## 38 Statement of Financial Position of the Company (continued)

### (b) Movements in components of reserve of the Company

| | Share premium *HK$'000* | Other reserve *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Balance at 1 January 2017 | 55,134 | 78 | (16,536) | 38,676 |
| Loss and total comprehensive expense for the year | – | – | (2,135) | (2,135) |
| Dividend paid | – | – | (6,800) | (6,800) |
| Balance at 31 December 2017 | 55,134 | 78 | (25,471) | 29,741 |
| Loss and total comprehensive expense for the year | – | – | (6,168) | (6,168) |
| Dividend paid (note 14) | – | – | (12,000) | (12,000) |
| **Balance at 31 December 2018** | **55,134** | **78** | **(43,639)** | **11,573** |

## 38 Statement of Financial Position of the Company (continued)

### (c) Particulars of principal subsidiaries

Details of the principal subsidiaries at the end of the reporting period are as follows:

| Name | Place of incorporation and business and type of legal entity | Particulars of issued share capital | Effective interest held by the Company | Principal activities |
|---|---|---|---|---|
| Solarday Investment Limited | Hong Kong, limited liability company | HK$20,000 | 100% | Restaurant operation |
| Orient Century Limited | Hong Kong, limited liability company | HK$20,000 | 100% | Restaurant operation |
| Great Virtue Investment Limited | Hong Kong, limited liability company | HK$10,000 | 100% | Restaurant operation |
| Great Virtue (Hong Kong) Investment Limited | Hong Kong, limited liability company | HK$10,000 | 100% | Restaurant operation |
| Li Bao Ge (Shenzhen) Catering Company Limited* 利寶閣(深圳)餐飲有限公司 | People's Republic of China, limited liability company | RMB11,960,600 | 100% | Restaurant operation |
| 利寶閣(深圳)宴會餐飲有限公司 | People's Republic of China, limited liability company | RMB8,000,000 | 100% | Restaurant operation |
| 象屋(深圳)餐飲有限公司 | People's Republic of China, limited liability company | HK$5,000,000 | 100% | Thai Cuisine restaurant operation |
| Excel Linker (Hong Kong) Limited | Hong Kong, limited liability company | HK$1 | 100% | Restaurant operation |
| Smart Best (Asia) Limited | Hong Kong, limited liability company | HK$100 | 100% | Ordering of food ingredient for the Group |

* The English name of Li Bao Ge (Shenzhen) Catering Company Limited represents the best effort by the management of the Group in translating its Chinese name as it does not have official English name.

The above table lists out the subsidiaries of the Group which, in the opinion of the Directors, principally affect the results of the Group for the year or form a substantial portion of the net assets of the Group at the end of the year.

To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt capital in issue at the end of the year or at any time during the year.

## 39 Share-Based Payment Transactions

Pursuant to the Company's share option scheme (the "Scheme") adopted on 16 June 2016 for the primary purpose of providing incentives to Directors, employees, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and services providers of the Group, the directors, employees, consultant or adviser of the Group or any substantial shareholder of the Group, or any distributors, contractors, suppliers, agents, customers, business partners and services providers may, at the discretion of the board, be granted options (the "Options") to subscribe for shares in the Company at a price determined by its directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day, (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares on the date of grant of the option.

Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

The Scheme will remain in force for a period of ten years from the date of its adoption. Options granted must be taken up not later than 7 days after the date of grant. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

The exercisable period of an option, which shall not exceed 10 years from the date of grant, is determined by the Board of Directors of the Company at their discretion.

No options have been granted since its adoption.

## 40 Events after the Reporting Date of 31 December 2018

There was no material subsequent event during the period from 1 January 2019 to the date of this report.

## 41 Comparative Figures

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Details of changes in accounting policies are disclosed in note 3 to these consolidated financial statements.

Certain comparative figures have been reclassified to conform to the current year's presentation. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

## 42 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2018

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been early adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 17 | Insurance contracts | 1 January 2021 |
| HK(IFRIC) Interpretation 23 | Uncertainty over income tax treatments | 1 January 2019 |
| HKFRS 9 (Amendments) | Prepayment features with negative compensation | 1 January 2019 |
| HKAS 28 (Amendments) | Long-term interests in associates and joint venture | 1 January 2019 |
| HKAS 19 (Amendments) | Plan amendment, curtailment or settlement | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of Assets between an investor and its Associate or Joint Venture | No mandatory effective date yet determined |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of their initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

## 42 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2018 (continued)

### HKFRS 16 *"Leases"*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

For the classification of cash flows, the Group currently presents operating lease payments and finance lease payments as operating cash flows and financing cash flows respectively. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

## 42 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2018 (continued)

### HKFRS 16 *"Leases"* (continued)

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

***(a) Impact on the consolidated financial statements***

As disclosed in note 3.23, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

At 31 December 2018, the Group, as lessee, has non-cancellable operating lease commitments of approximately HK$198,736,000 as set out in note 36 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by "right-of-use asset" and "lease liability" in the consolidated statement of financial position of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

***(b) Date of adoption by the Group***

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transaction approach and will not restate comparative amounts for the year prior to first adoption.

In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except for the above, the directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Group's future consolidated financial statements.

# Financial Summary

## RESULTS

**Year ended 31 December**

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **360,509** | 307,001 | 278,429 | 256,881 | 245,905 |
| Profit before income tax | **5,007** | 30,109 | 16,148 | 10,740 | 22,481 |
| Income tax expense | **(2,745)** | (6,921) | (4,800) | (4,119) | (4,581) |
| Profit for the year | **2,262** | 23,188 | 11,348 | 6,621 | 17,900 |
| Attributable to: | | | | | |
| Owner of the Company | **2,262** | 23,188 | 11,348 | 3,652 | 16,432 |
| Non-controlling interests | **–** | – | – | 2,969 | 1,468 |
| | **2,262** | 23,188 | 11,348 | 6,621 | 17,900 |

## Assets, Liabilities and Non-Controlling Interests

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **181,261** | 198,918 | 174,361 | 114,973 | 133,439 |
| Total liabilities | **(57,978)** | (62,520) | (55,570) | (76,499) | (114,437) |
| Net assets | **123,283** | 136,398 | 118,791 | 38,474 | 19,002 |
| Non-controlling interests | **–** | – | – | – | 1,839 |
| Equity attributable to the owners of the Company | **123,283** | 136,398 | 118,791 | 38,474 | 20,841 |

The financial information for the years ended 31 December 2016, 2017 and 2018 is extracted from the consolidated financial statements in the Company's annual report while such for the years ended 31 December 2014 and 2015 is extracted from the Prospectus. Such summary is presented on the basis as set out in the Prospectus.

The summary above does not form part of the audited consolidated financial statements.