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利·寶·閣

Li Bao Ge Group Limited

利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8102)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF 60% OF THE ISSUED SHARES OF
PROFIT SHINER INVESTMENT LIMITED**

THE ACQUISITION

The Board is pleased to announce that on 13 February 2017 (after trading hours), the Directors (including all the independent non-executive Directors) resolved to exercise the Right of First Refusal. On the same date, pursuant to the exercise of the Right of First Refusal, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire, the Sale Shares (representing 60% of the issued shares of the Target Company) at the Consideration of HK\$1,800,000 which shall be satisfied by internal resources of the Group in the form of cash.

Upon Completion, the Target Company will be owned as to 60% and 40% by the Purchaser and the Vendor, respectively. As such, the Target Company will become an indirect non-wholly-owned subsidiary of the Company, and its financial results will be consolidated into the accounts of the Group.

GEM LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios under the GEM Listing Rules in respect of the Acquisition are more than 5% and all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

As the Acquisition is subject to the fulfilment or waiver (as the case may be) of the Conditions and the transactions contemplated thereunder may or may not proceed to Completion, shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

INTRODUCTION

Reference is made to the disclosures in the paragraph headed “Non-Competition Undertakings” under the section headed “Relationship with Controlling Shareholders” of the Prospectus.

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 the Vendor to acquire 60% issued shares of the Target Company (the “**Business Opportunity**”).

Given the business of the Target Company 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, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire, the Sale Shares at the Consideration of HK\$1,800,000 which shall be satisfied by internal resources of the Group in the form of cash.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are set out as follows:

1. **Date:** 13 February 2017 (after trading hours)
2. **Parties:** (i) the Purchaser, as purchaser
(ii) the Vendor, as vendor
3. **Assets to be acquired:**

The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the Sale Shares, representing 60% of the issued shares of the Target Company immediately prior to Completion, free from all encumbrances and together with all rights and benefits attaching thereto. The Target Company is principally engaged in the operation of a Thai cuisine restaurant under the Franchise Agreement, which is planned to be opened by the end of February 2017. Further details of the Target Company are set out in the section headed “Information of the Vendor and the Target Company” in this announcement.

4. **Consideration**

- (a) *The Consideration*

The Consideration amounts to HK\$1,800,000 and shall be satisfied by cash in one (1) lump-sum payment to the Vendor upon Completion.

(b) Basis of determination of the Consideration

The Consideration was determined after arm's length negotiations between the parties and with reference to (i) the Valuation Report and (ii) the prospect of business of the Target Company. According to the Valuation Report, the valuated amount of entire equity interest of the Target Company operating under the Franchise Agreement is approximately HK\$3,900,000 as of 31 December 2016.

Given that the valuation of the Target Company has adopted the income approach in the form of a discounted cash flow methodology (“**DCF**”), such valuation is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules (the “**Profit Forecast**”). The followings were prepared and published in compliance with Rule 19.62 of the GEM Listing Rules.

Profit Forecast in relation to the Valuation Report

The Valuation Report has been prepared based on the following major assumptions:

- (i) The financial projections provided by the Target Company are reasonable, reflecting market conditions and economic fundamentals.
- (ii) The financial projections provided by the Target Company will be materialised.
- (iii) There will be sufficient supply of technical staff in the industry in which the Target Company operates.
- (iv) The Target Company will retain competent management, key personal and technical staff to support its ongoing operations and developments.
- (v) There will be no major changes in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.
- (vi) There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and the profitability of the Target Company.
- (vii) All relevant legal approvals and business certificates or licenses to operate the business localities in which the Target Company operates or intends to operate would be officially obtained, and renewed upon expiry.

A report from the Company's auditor, Ting Ho Kwan & Chan CPA Limited ("THKC"), confirming that it has reviewed the calculation method of DCF used in the Valuation Report is set out in Appendix I to this announcement. A letter from the Board confirming that the Directors are of the view that the valuation of the Target Company has been made after due and careful enquiry is set out in Appendix II to this announcement for the purpose of Rules 19.60A and 19.62 of the GEM Listing Rules. The Company has submitted the aforesaid report from THKC and letter from the Board to the Stock Exchange in compliance with Rules 19.62(2) and (3) of the GEM Listing Rules. The followings are the qualifications of the experts who have given their opinions in this announcement:

| Name | Qualification |
|--|---|
| International Valuation Limited Ting Ho Kwan & Chan CPA Limited | Independent professional valuer Certified Public Accountants |

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, each of the Valuer and THKC is an Independent Third Party. As at the date of this announcement, neither the Valuer nor THKC has any shareholding in any member of the Group directly or indirectly, or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the Valuer and THKC has given and has not withdrawn its respective written consent to the publication of this announcement with inclusion of its opinion and advice and all references to its name in the form and context in which it appears in this announcement.

5. Conditions

Completion is conditional upon the fulfilment or waiver (as the case may be) of the following Conditions:

- (a) the Vendor and the Purchaser have obtained all necessary and valid consents and approvals for the Acquisition, including but not limited to the authorisations or approvals given by their controlling shareholders, the relevant government authorities and regulatory bodies and other third parties (including banks and franchisor of the Franchise Agreement);
- (b) the representations and warranties made by the Vendor in the Acquisition Agreement are true, accurate and complete in all material respects and no events have come to the Directors' attention that they would constitute material adverse change that would affect the transactions contemplated under the Acquisition Agreement;
- (c) the Purchaser has completed its due diligence review of the financial, legal, commercial, trade, asset, corporate, tax and operational aspects of the Target Company to its absolute satisfaction;

- (d) the Target Company has obtained valid general restaurant licence issued by the Hong Kong Food and Environmental Hygiene Department; and
- (e) the Vendor has discharged and/or waived all outstanding payments (if any) owed by the Target Company to the Vendor, the existing and previous shareholders of the Target Company and other third parties, and have provided evidence of such discharge(s) and/or waiver(s) in form and content absolutely satisfactory to the Purchaser.

In the event that any of the aforesaid conditions have not been fulfilled or waived by the Purchaser (if applicable) on or before the Long Stop Date, the Acquisition Agreement shall be automatically terminated forthwith and cease to be of any effect and the parties thereto shall have no claims against each other arising out of or in connection with the Acquisition Agreement, save for any claims arising out of any antecedent breach of the Acquisition Agreement.

6. Completion

Completion shall take place at the Hong Kong registered address of the Purchaser at 4 p.m. on the Completion Date or in accordance with such other date, time and/or venue mutually agreed by the Vendor and the Purchaser in writing, provided that the Conditions have been fulfilled or effectively waived (as the case may be) by the Purchaser.

Upon Completion, the Target Company will be owned as to 60% and 40% by the Purchaser and the Vendor, respectively. As such, the Target Company will become an indirect non-wholly-owned subsidiary of the Company. The financial results of the Target Company will be consolidated into the accounts of the Group from the Completion Date onwards.

7. Financial commitment

The Purchaser shall advance an aggregate of HK\$7,500,000 to the Target Company by way of shareholder's loans as working capital of the Target Company within three (3) months after Completion Date.

The above shareholder's loans shall be unsecured, non-interest bearing and repayable upon the Purchaser's demand and will be funded by the internal resources of the Group.

8. Other Transaction Agreement

Upon Completion, the Purchaser, the Vendor and the Target Company will enter into a Shareholders' Agreement for the purpose of regulating their relationship as shareholders inter se and with the Target Company. It is expected that the Shareholders' Agreement will contain the following major terms:

Disposal of shares and pre-emptive rights

- (i) Each of the shareholders of the Target Company agrees with and undertakes to each other that it will not, without the prior written consent of all other shareholders of the Target Company, sell, transfer, or otherwise dispose or encumber any of its shares in the Target Company; and

- (ii) If any shareholder of the Target Company wishes to transfer its shares in the Target Company, it shall first offer its shares to be transferred in the Target Company to the other shareholders of the Target Company in accordance with the provisions of the Shareholders' Agreement.

INFORMATION OF THE VENDOR AND THE TARGET COMPANY

The Vendor is an investor and experienced businessman.

The Target Company is a company incorporated in Hong Kong with limited liability and principally engaged in the business of operation of a Thai cuisine restaurant under the franchise name of "THAI BRASSERIE by BLUE ELEPHANT" for a period of ten (10) years from 1 November 2016 to 31 October 2026 pursuant to the Franchise Agreement.

As at the date of this announcement, the Target Company has substantially completed the renovation of the Thai cuisine restaurant which is planned to be opened by the end of February 2017.

A summary of the financial information of the Target Company is set out below:

| | For the period from 5 February 2016 (date of incorporation) to 31 December 2016 (HK\$'000) (Unaudited) |
|----------------------|---|
| Turnover | – |
| Loss before taxation | 1,180 |
| Loss after taxation | 1,180 |

The net deficiency in assets of the Target Company was approximately HK\$0.9 million, based on the unaudited management accounts of the Target Company as of 31 December 2016. Based on the valuation basis, valuation assumptions and the appraisal method employed by the Valuer, the fair value of the entire equity interest in the Target Company was reasonably represented by the sum of HK\$3.9 million.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party.

INFORMATION OF THE GROUP

The Company is an investment holding company and the Group is principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors believe that the Acquisition could benefit the business expansion and revenue generation of the Company by having access to the franchised restaurant business under the franchise name of “THAI BRASSERIE by BLUE ELEPHANT” and could enhance the reputation of the Group by offering a more variety of cuisines in the market.

Having considered the above, the Directors (including independent non-executive Directors) are of the view that the Acquisition is carried out on normal commercial terms which are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As Ms. Chan is a close associate of Mr. Chan, Mr. Chan has abstained from voting on the Board’s resolutions approving the exercise of the Right of First Refusal and the Acquisition.

IMPLICATIONS UNDER THE GEM LISTING RULES

As certain of the applicable percentage ratios under the GEM Listing Rules in respect of the Acquisition are more than 5% and all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

GENERAL

As the Acquisition is subject to the fulfilment or waiver (as the case may be) of the Conditions and the transactions contemplated thereunder may or may not proceed to Completion, shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

| | |
|-------------------------|--|
| “Acquisition” | the acquisition of the Sale Shares of the Target Company pursuant to the terms and conditions of the Acquisition Agreement |
| “Acquisition Agreement” | the formal sale and purchase agreement dated 13 February 2017 and entered into between the Vendor and the Purchaser |
| “Board” | the board of the Directors |
| “business day(s)” | a day other than Saturday, Sunday, on which banks are open in Hong Kong to general public for business |
| “close associate(s)” | has the meaning ascribed thereto under the GEM Listing Rules |
| “Company” | Li Bao Ge Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM (Stock Code: 8102) |

| | |
|---------------------------|---|
| “Completion” | completion of the transfer of Sale Shares from the Vendor to the Purchaser pursuant to the terms and conditions of the Acquisition Agreement |
| “Completion Date” | the fourth (4th) business day after the fulfillment and/or effective waiver of the Conditions but before the Long Stop Date |
| “Conditions” | the conditions precedent of the Acquisition Agreement |
| “Consideration” | the total consideration for the Sale Shares in the sum of HK\$1,800,000 |
| “Deed of Non-Competition” | the deed of non-competition dated 16 June 2016 executed by the controlling shareholders of the Company in favour of the Company |
| “Director(s)” | director(s) of the Company |
| “Franchise Agreement” | the franchise agreement dated 14 November 2016 and entered into among the Target Company (as franchisee), Top Rank Corporation N.V. (as franchisor), and Blue Elephant International Ltd (as service provider), in relation to the grant of franchise for the operation of a Thai cuisine restaurant in Hong Kong under the trade name of THAI BRASSERIE by BLUE ELEPHANT |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on the GEM |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | The Hong Kong Special Administrative Region of the PRC |
| “Independent Third Party” | third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules) |
| “Long Stop Date” | 31 May 2017 or such other date mutually agreed by the Purchaser and Vendor in writing pursuant to the Acquisition Agreement |
| “Mr. Chan” | Mr. Chan Chun Kit (陳振傑), an executive Director, the Chairman of the Board and a controlling shareholder of the Company |
| “PRC” | the People’s Republic of China |
| “Prospectus” | the prospectus of the Company dated 24 June 2016 |
| “Purchaser” | Keen Nation Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company |

| | |
|---------------------------|--|
| “Sale Shares” | 180,000 ordinary shares of the Target Company, representing 60% of its issued shares as at the date of the Acquisition Agreement, or such number of shares of the Target Company representing 60% of its issued shares as at the Completion Date |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the issued share capital of the Company |
| “Shareholders’ Agreement” | the shareholders’ agreement entered into among the Target Company, the Vendor and the Purchaser upon Completion |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target Company” | Profit Shiner Investment Limited, a company incorporated Hong Kong on 5 February 2016 with limited liability |
| “Valuer” | International Valuation Limited, an independent professional valuer |
| “Valuation Report” | the valuation report of the Target Company dated 10 February 2017 on the valuation of the entire equity interest in the Target Company as at 31 December 2016 under the income approach in the form of a discounted cash flow methodology prepared by the Valuer |
| “Vendor” | Mr. Tsang Kwok Hing |

By the order of the Board
Li Bao Ge Group Limited
Chan Chun Kit
Chairman

Hong Kong, 13 February 2017

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page on the Growth Enterprise Market website at www.hkgem.com for at least 7 days from the date of its posting and will also be published on the Company’s website at www.starofcanton.com.hk.

APPENDIX 1 – LETTER FROM THE COMPANY’S AUDITOR

The following is a text of a letter from the Company’s auditor prepared for the purpose of incorporation in this announcement.

The Board of Directors
Li Bao Ge Group Limited
Room 2702, Tower 2, Kowloon Commerce Centre
No. 51 Kwai Cheong Road, Kwai Chung
New Territories
Hong Kong

Dear Sirs,

ACCOUNTANTS’ REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTEREST IN PROFIT SHINER INVESTMENT LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by International Valuation Limited dated 10 February 2017, of the equity interest in Profit Shiner Investment Limited (“Profit Shiner”) as at 31 December 2016 (the “Valuation”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and will be included in an announcement dated 13 February 2017 to be issued by Li Bao Ge Group Limited (the “Company”) in connection with the acquisition of 60% equity interest in Profit Shiner (the “Announcement”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Announcement (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 19.62(2) of the GEM Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Profit Shiner.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Ting Ho Kwan & Chan CPA Limited
Certified Public Accountants (Practising)
Hong Kong, 13 February 2017

APPENDIX II – LETTER FROM THE BOARD

The following is a text of a letter from the Board prepared for the purpose of incorporation in this announcement.

13 February 2017
Listing Department
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street, Central, Hong Kong

Dear Sirs,

Discloseable Transaction – Acquisition of 60% of the issued shares of Profit Shiner Investment Limited (the “**Target Company**”) by Keen Nation Limited, an indirect wholly-owned subsidiary of Li Bao Ge Group Limited (the “**Company**”)

We refer to the announcement of the Company dated 13 February 2017 of which this letter forms part (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation Report dated 10 February 2017 issued by the Valuer regarding the valuation (the “**Valuation**”) of 100% equity interest in the Target Company as at 31 December 2016, which constitutes a profit forecast under Rule 19.61 of the GEM Listing Rules. We have discussed with the Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report dated 13 February 2017 from Ting Ho Kwan & Chan CPA Limited regarding whether the Valuation, so far as the bases and calculations are concerned, has properly complied with the assumptions as set out in the Valuation Report. We have noted that the Valuation is mathematically accurate and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company. We hereby confirm that the Valuation has been made after due and careful enquiry of the Board.

Yours faithfully,
For and on behalf of the Board of
Li Bao Ge Group Limited
Chan Chun Kit
Chairman and Executive Director