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**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)**

## **DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF 70% EQUITY INTERESTS IN THE TARGET COMPANY**

### **THE ACQUISITION**

The Board is pleased to announce that, on 9 January 2020 (after trading hours), Li Bao Tea House (Shenzhen) Catering Limited (利寶茶居(深圳)餐飲有限公司) (the “Li Bao Tea House”) (an indirect wholly-owned subsidiary of the Company) and the Vendors entered into the Equity Transfer Agreement, pursuant to which, Li Bao Tea House has agreed to purchase, and the Vendors have agreed to sell, the Target Equity Interests, representing 70% of the equity interests of the Target Company, at the consideration of RMB22,400,000, payable by Li Bao Tea House in accordance with the terms and conditions of the Equity Transfer Agreement.

Upon Completion, the Target Company will become a 70% owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial results of the Group.

### **LISTING RULES IMPLICATION**

As the highest applicable percentage ratio in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements but exempt from Shareholders’ approval requirement under Chapter 14 of the Listing Rules.

### **THE EQUITY TRANSFER AGREEMENT**

The Board is pleased to announce that, on 9 January 2020 (after trading hours), Li Bao Tea House (an indirect wholly-owned subsidiary of the Company) and the Vendors entered into the Equity Transfer Agreement, pursuant to which, Li Bao Tea House has agreed to purchase, and the Vendors have agreed to sell, the Target Equity Interests, representing 70% of the equity interests of the Target Company, at the consideration of RMB22,400,000, payable by Li Bao Tea House in accordance with the terms and conditions of the Equity Transfer Agreement.

The principal terms of the Equity Transfer Agreement are set out below:

- Date : 9 January 2020
- Parties : (1) Luo Lu\* (羅露)
- (2) Huang Min\* (黃旻) (together with Luo Lu as vendors)
- (3) Li Bao Tea House (as purchaser)

### **Subject Matter**

Pursuant to the Equity Transfer Agreement, Li Bao Tea House has agreed to purchase, and the Vendors as legal and beneficial owners have agreed to sell, the Target Equity Interests, representing 70% of the equity interests of the Target Company.

### **Consideration**

The Consideration for the Acquisition shall be RMB22,400,000, which shall be payable by Li Bao Tea House to the Vendors in accordance with the following manner:

- (a) within three business days after the execution of the Equity Transfer Agreement and the fulfilment of the following conditions:
- (i) the Target Company has updated its Register of Members;
  - (ii) the new articles of association has been executed;
  - (iii) nominees of Li Bao Tea House and the Vendors have been appointed as the directors of the Target Company; and
  - (iv) the Target Company has passed the resolution to approve the transfer of the Target Equity Interests and all the existing shareholders of the Target Company have forfeited their rights of first refusal.

Li Bao Tea House shall pay the Vendors 80% of the Consideration (i.e. RMB17,920,000) by way of bank transfer, of which RMB10,940,000 shall be paid to Luo Lu and RMB6,980,000 shall be paid to Huang Min;

- (b) within three business days after the completion of change of industrial and commercial registration procedures of the Target Equity Interests transfer, Li Bao Tea House shall pay the Vendors 20% of the Consideration (i.e. RMB4,480,000) by way of bank transfer, of which RMB2,730,000 shall be paid to Luo Lu and RMB1,750,000 shall be paid to Huang Min;
- (c) if the audited revenue of the Target Company for the financial year ended 31 December 2019 (“FY2019”) is higher than RMB40,000,000, the Consideration will be adjusted upwards by the adjustment amount, being calculated as 70% of the 80% of the excess of the audited revenue over RMB40,000,000 (i.e. (audited revenue of the Target Company for FY2019 – RMB40,000,000) x 80% x 70%). Li Bao Tea House shall pay the aforementioned adjustment amount to the Vendors within thirty days after the production of such audited report of the Target Company for FY2019. The upward adjustment amount is capped at RMB5,000,000.

- (d) if the audited revenue of the Target Company for FY2019 is less than RMB40,000,000, the Consideration will be adjusted downwards by the adjustment amount, being calculated as 70% of the 80% of the excess of the RMB40,000,000 over the audited revenue (i.e.  $(\text{RMB}40,000,000 - \text{audited revenue of the Target Company for FY2019}) \times 80\% \times 70\%$ ). The Vendors shall pay the aforementioned adjustment amount to Li Bao Tea House within thirty days after the production of such audited report of the Target Company for FY2019.

The Consideration was determined after arm's length negotiation between Li Bao Tea House and the Vendors, having regard to: (i) the prevailing market conditions; (ii) the operational and financial performance of the Target Company; and (iii) the business prospects of the Target Company. The Vendors and Li Bao Tea House have agreed to value the Target Company at 80% of the revenue of the Target Company for FY2019 subject to aforesaid adjustments. The Consideration will be funded by the Group with internal resources.

## Completion

Completion of the Acquisition shall take place upon the transfer of the Target Equity Interests to be acquired by Li Bao Tea House under the Equity Transfer Agreement in the name of Li Bao Tea House.

## INFORMATION OF THE TARGET COMPANY

The Target Company was established under the laws of PRC with limited liability on 8 October 2016. It has been operating more than 30 food counters selling roasted meat and delicatessen under the brand names of "Sun Kau Kee\* (新玖記)" and "Chaojiangjun\* (潮將軍)" through online stores and offline stores at Freshippo (盒馬鮮生), which is a network of fresh food supermarkets with online and offline platform operated by a subsidiary of Alibaba Group Holding Limited (阿里巴巴集團控股有限公司).

Set out below is the extract of the unaudited financial information of the Target Company for the three years ended 31 December 2017, 2018 and 2019. Although the Target Company recorded loss for the year ended 31 December 2019, it is expected that its business will turn around in year ending 31 December 2020 with focus of new stores opening in first and second tiered cities in China, more prudent cost control and streamlining of operational teams:

	<b>For the year ended/As at 31 December 2017 RMB'000 (unaudited)</b>	<b>For the year ended/As at 31 December 2018 RMB'000 (unaudited)</b>	<b>For the year ended/As at 31 December 2019 RMB'000 (unaudited)</b>
Revenue	14,692	26,657	38,200
Profit/(Loss) before income tax	344	2,358	(4,793)
Profit/(Loss) after income tax	334	2,327	(4,793)
Total assets	4,001	17,435	17,408
Total liabilities	2,942	6,749	12,142
Net assets	1,059	10,686	5,266

As at 31 December 2019, the unaudited net asset value of the Target Company was approximately RMB5.3 million. Upon Completion, the Target Company will become a 70% owned subsidiary of the Company and its financial results will be consolidated into the financial results of the Group, and the remaining 30% will be owned as to approximately 20.9% and 9.1% by Luo Lu and Luo Jie respectively.

## **INFORMATION OF THE COMPANY**

### **The Company**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 September 2015. The Company is an investment holding company and its subsidiaries are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the PRC.

## **INFORMATION OF THE PARTIES TO THE EQUITY TRANSFER AGREEMENT**

### **Li Bao Tea House**

Li Bao Tea House is a company established under the laws of the PRC with limited liability. It is an indirect wholly-owned subsidiary of the Company and is principally engaged in operating a Chinese tea house.

### **The Vendors**

To the best of the Directors' knowledge, information and belief and having made all reasonable inquiries, both Luo Lu and Huang Min are third parties independent of the Company and the connected persons of the Company.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT**

As set out above, the Target Company has been operating its sales of roasted meat and delicatessen business through both online and offline platform of Freshippo. The Board considers that the Group can rapidly further its existing cooperation with Freshippo through the Acquisition and utilise Freshippo's Online to Offline platform and technical support, including marketing and promotion, online sales, delivery and development of potential customers, to expand the Group's business beyond the Greater Bay Area to the Shanghai region.

With the existing network of the Target Company and leverage on Freshippo's brand awareness and high consumer traffic, the "Sun Kau Kee\* (新玖記)" brand will create synergy with the Company's existing "Star of Canton" brand. The Acquisition allows the Company to rapidly penetrate in eastern China with Shanghai as the center. With the Target Company, the Company gains instant access to China's fast-growing, high volume online food ordering, delivery and takeaway market. Furthermore, the Acquisition provides brand diversification for the Company. The highly scalable operations of the Target Company will set a good foundation for the Company to leapfrog as one of the dominant providers for Cantonese style roast meat products in China's online and offline food delivery market in the future.

Having considered the benefits of the Acquisition and the terms of the Acquisition, the Board is of the view that the terms of the Equity Transfer Agreement and the transaction contemplated thereunder have been negotiated on an arm's length basis and on normal commercial terms, in the ordinary course of business, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors have a material interest in the Equity Transfer Agreement and the transaction contemplated thereunder and therefore no Director has abstained from voting on the relevant Board resolution approving the Equity Transfer Agreement.

## LISTING RULES IMPLICATION

As the highest applicable percentage ratio in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

## DEFINITIONS

“Acquisition”	the proposed acquisition of the Target Equity Interests by Li Bao Tea House from the Vendors pursuant to the Equity Transfer Agreement
“Board”	the board of Directors
“Company”	Li Bao Ge Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	RMB22,400,000, being the consideration for the Target Equity Interests under the Equity Transfer Agreement subject to adjustment
“Directors”	the directors of the Company
“Equity Transfer Agreement”	An equity transfer agreement dated 9 January 2020 entered into between Li Bao Tea House and the Vendors in relation to the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Li Bao Tea House”	Li Bao Tea House (Shenzhen) Catering Limited (利寶茶居(深圳)餐飲有限公司), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People's Republic of China which, for the purposes of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of PRC

“Share(s)”	the ordinary share(s) of par value HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	The holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Yaoliang (Shanghai) Food Limited Company* 耀良(上海)食品有限公司, a company established under the laws of PRC with limited liability which is approximately 63.6%, 27.3%, 9.1% owned by Luo Lu, Huang Min and Luo Jie (羅杰) respectively, all of which are independent third parties
“Target Equity Interests”	an aggregate of 70% of the equity interests of the Target Company owned by the Vendors
“Vendors”	Luo Lu* (羅露) and Huang Min* (黃旻)

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

Hong Kong, 9 January 2020

*As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Mr. Lam Kwok Leung Peter, Mr. Wong Ka Wai, Ms. Chan Josephine Wai Sze and Ms. Zhu Xueqin; the non-executive Director is Mr. Chow Yiu Pong David; and the independent non-executive Directors are Mr. Liu Chi Keung, Prof. Wong Lung Tak Patrick, Mr. Tam Tak Kei Raymond and Mr. Yuen Ching Bor, Stephen.*

\* *For identification purpose only*