



# 皇璽餐飲

集團控股有限公司

ROYAL CATERING

Group Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8300

## 2016

Third Quarterly Report

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

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*This report, for which the directors (the “**Directors**”) of Royal Catering Group Holdings Company Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.*



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## Financial Highlights

- The Group recorded an unaudited revenue of approximately HK\$69.0 million for the nine-month period ended 31 December 2016 (nine-month period ended 31 December 2015: approximately HK\$101.0 million), representing a decrease of approximately 31.7% over the same period of the previous year.
- The Group recorded an unaudited loss and total comprehensive loss attributable to owners of the Company of approximately HK\$12.7 million for the nine-month period ended 31 December 2016 (nine-month period ended 31 December 2015: unaudited profit and total comprehensive income attributable to owners of the Company of approximately HK\$8.4 million).
- The basic and diluted loss per share attributable to owners of the Company for the nine-month period ended 31 December 2016 were HK0.63 cents and HK0.63 cents respectively (nine-month period ended 31 December 2015: the basic and diluted earnings per share attributable to owners of the Company of HK0.42 cents and HK0.42 cents respectively).

## THIRD QUARTERLY UNAUDITED RESULTS

The board (the "Board") of Directors the Company is pleased to announce the unaudited condensed consolidated results of the Company and the subsidiaries (collectively, the "Group") for the nine-month period ended 31 December 2016, together with the unaudited comparative figures for the respective corresponding period in 2015 as follows:

### Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three-month and nine-month period ended 31 December 2016

	Notes	Three-month period ended 31 December		Nine-month period ended 31 December	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>20,634</b>	29,926	<b>68,972</b>	100,955
Cost of inventories sold		<b>(4,085)</b>	(6,318)	<b>(13,213)</b>	(22,787)
<b>Gross profit</b>		<b>16,549</b>	23,608	<b>55,759</b>	78,168
Other revenue and other income		<b>577</b>	417	<b>1,896</b>	3,812
Staff costs		<b>(9,544)</b>	(8,364)	<b>(23,506)</b>	(29,053)
Depreciation of property, plant and equipment		<b>(581)</b>	(683)	<b>(1,684)</b>	(2,613)
Property rentals and related expense		<b>(7,176)</b>	(9,066)	<b>(22,448)</b>	(25,196)
Fuel and utility expenses		<b>(836)</b>	(1,139)	<b>(2,748)</b>	(4,256)
Administrative expenses		<b>(2,859)</b>	(6,460)	<b>(24,143)</b>	(16,896)
<b>(Loss)/profit from operations</b>		<b>(3,870)</b>	(1,687)	<b>(16,874)</b>	3,966
Gain on disposal of a subsidiary		—	636	—	636
Share of result of an associate		<b>1,605</b>	1,803	<b>5,448</b>	6,530
Share of result of a joint venture		—	(54)	—	(54)
Finance costs		<b>(42)</b>	(95)	<b>(190)</b>	(304)
<b>(Loss)/profit before tax</b>	4	<b>(2,307)</b>	603	<b>(11,616)</b>	10,774
Income tax expenses	5	<b>(194)</b>	(432)	<b>(1,060)</b>	(2,337)
<b>(Loss)/profit and total comprehensive (loss)/income for the period</b>		<b>(2,501)</b>	171	<b>(12,676)</b>	8,437
<b>(Loss)/profit and total comprehensive (loss)/income for the period attributable to:</b>					
Owners of the Company		<b>(2,501)</b>	172	<b>(12,676)</b>	8,458
Non-controlling interests		—	(1)	—	(21)
		<b>(2,501)</b>	171	<b>(12,676)</b>	8,437
<b>(Loss)/earnings per share attributable to owner of the Company</b>					
Basic and diluted (loss)/earnings per share (HK cents)	6	<b>(0.13)</b>	0.01	<b>(0.63)</b>	0.42

The notes on pages 5 to 9 form integral part of these unaudited condensed consolidated financial statements.

# Unaudited Condensed Consolidated Statement of Changes in Equity

For the nine-month period ended 31 December 2016

	Attributable to owners of the Company						
	Share capital	Share premium	Share option reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2015 (audited)	—	—	—	46,474	46,474	(616)	45,858
Profit and total comprehensive income for the period	—	—	—	8,458	8,458	(21)	8,437
Dividend paid (note 7)	—	—	—	(43,000)	(43,000)	—	(43,000)
Acquisition of additional interest in a subsidiary	—	—	—	(485)	(485)	185	(300)
<b>As at 31 December 2015 (unaudited)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>11,447</b>	<b>11,447</b>	<b>(452)</b>	<b>10,995</b>
As at 1 April 2016 (audited)	—	—	—	15,608	15,608	(453)	15,155
Loss and total comprehensive loss for the period	—	—	—	(12,676)	(12,676)	—	(12,676)
Dividend paid (note 7)	—	—	—	(3,000)	(3,000)	—	(3,000)
Issue of share under the capitalisation issue	15,000	(15,000)	—	—	—	—	—
Issuance of new shares by way of placing	5,000	70,000	—	—	75,000	—	75,000
Share issuance costs	—	(9,760)	—	—	(9,760)	—	(9,760)
Recognition of equity-settled share option	—	—	2,750	—	2,750	—	2,750
Non-controlling interests written off upon deregistration of a subsidiary	—	—	—	—	—	453	453
<b>As at 31 December 2016 (unaudited)</b>	<b>20,000</b>	<b>45,240</b>	<b>2,750</b>	<b>(68)</b>	<b>67,922</b>	<b>—</b>	<b>67,922</b>

The notes on pages 5 to 9 form integral part of these unaudited condensed consolidated financial statements.

# Notes to the Unaudited Condensed Consolidated Financial Statements

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 19 August 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed and traded on the GEM of the Stock Exchange by way of placing (the “**Listing**”) with effect from 8 August 2016 (the “**Listing Date**”). The address of its registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is at Room 1207, 12/F., Wing On Kowloon Centre, No. 345 Nathan Road, Kowloon, Hong Kong. Its ultimate holding company is Fortune Round Limited, a company incorporated in the British Virgin Islands with limited liabilities and wholly owned by Mr. Wong Man Wai, a director of the Company.

Pursuant to a corporate reorganisation (the “**Reorganisation**”), details of which were disclosed in the section headed “**History, Development and Reorganisation**” of the prospectus dated 1 August 2016 of the Company (the “**Prospectus**”), the Company became the holding company of the companies comprising the Group on 6 June 2016. The companies now comprising the Group were under common control of Mr. Wong Man Wai before and after the Reorganisation. Accordingly, the unaudited condensed consolidated financial statements (the “**Quarterly Financial Statements**”) have been prepared on the basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the reporting period.

The Company is principally engaged in investment holding. The Group is principally engaged in the provision of casual dining food catering services in Hong Kong.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Quarterly Financial Statements of the Group for the nine-month period ended 31 December 2016 have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee.

The Quarterly Financial Statements for the nine-month period ended 31 December 2016 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosures required by the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the Quarterly Financial Statements for the nine-month period ended 31 December 2016 are consistent with those adopted in the Group’s annual financial statements for the year ended 31 March 2016, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the “**New and Revised HKFRSs**”) (which include all applicable HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA that have become effective for accounting period beginning on 1 April 2016. The Quarterly Financial Statements for the nine-month period ended 31 December 2016 do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited financial statements included in the Prospectus.

The adoption of the New and Revised HKFRSs has had no significant effect on the Quarterly Report Statements for the nine-month period ended 31 December 2016 and there have been no significant changes to the accounting policies applied in the Quarterly Financial Statements for the nine-month period ended 31 December 2016.

# Notes to the Unaudited Condensed Consolidated Financial Statements

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Directors do not anticipate that the application of new and revised HKFRSs issued but not yet effective will have material impact on the Group's financial performance and unaudited condensed consolidated financial position for the future and/or the disclosure set out in the Group's Quarterly Financial Statements.

The Quarterly Financial Statements for the nine-month period ended 31 December 2016 have been prepared under the historical cost convention. The Quarterly Financial Statements for the nine-month ended 31 December 2016 are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Group and all value are rounded to the nearest thousand (HK\$ '000), unless otherwise indicated.

## 3. REVENUE

Revenue represents amounts received and receivable from restaurants operations, sales of food and franchise fee income. An analysis of revenue is as follows:

	For the three-month period ended 31 December		For the nine-month period ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Restaurants operations	19,875	23,659	65,909	92,987
Sales of food	583	6,149	2,612	7,850
Franchise fee income	176	118	451	118
	20,634	29,926	68,972	100,955

# Notes to the Unaudited Condensed Consolidated Financial Statements

## 4. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	For the three-month period ended 31 December		For the nine-month period ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Auditors' remuneration — audit services	43	64	159	208
Cost of inventories sold	4,085	6,318	13,213	22,787
Depreciation of property, plant and equipment	581	683	1,684	2,613
Lease payments under operating leases in respect of land and buildings:				
— Minimum lease payments	6,527	6,295	18,575	20,055
— Contingent rents	134	2,262	2,315	3,452
	6,661	8,557	20,890	23,507
Employee benefit expenses (including directors' remuneration):				
— Salaries and wages	6,444	7,139	18,873	25,353
— Staff benefits	72	293	1,045	2,095
— Share options expenses	2,750	—	2,750	—
— Retirement benefit scheme contributions	278	932	838	1,605
	9,544	8,364	23,506	29,053
Listing expenses	—	3,569	15,138	8,422
Gain on disposal of a subsidiary	—	(636)	—	(636)
Management fee income	(102)	(102)	(306)	(306)
Net foreign exchange gain	(171)	(139)	(595)	(568)
Reversal of impairment loss recognised in respect of amount due from an associate	—	—	—	(2,400)
Interest income	(85)	(1)	(141)	(2)

# Notes to the Unaudited Condensed Consolidated Financial Statements

## 5. INCOME TAX EXPENSES

	For the three-month		For the nine-month	
	period ended 31 December		period ended 31 December	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current tax — Hong Kong profit tax charge for the period	194	432	1,060	2,148
Under-provision in prior periods	—	—	—	189
	194	432	1,060	2,337

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the nine-month periods ended 31 December 2015 and 2016, respectively.

## 6. (LOSS)/EARNINGS PER SHARE

	For the three-month		For the nine-month	
	period ended 31 December		period ended 31 December	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>(Loss)/earnings</b>				
(Loss)/earnings for the period attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	(2,501)	172	(12,676)	8,458

# Notes to the Unaudited Condensed Consolidated Financial Statements

## 6. (LOSS)/EARNINGS PER SHARE (CONTINUED)

	For the three-month period ended 31 December		For the nine-month period ended 31 December	
	2016 '000 (unaudited)	2015 '000 (unaudited)	2016 '000 (unaudited)	2015 '000 (unaudited)
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per shares	<b>2,000,000</b>	2,000,000	<b>2,000,000</b>	2,000,000

The weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share has been determined on the assumption that 2,000,000,000 ordinary shares of the Company have been in issue throughout the periods, which being the total number of shares in issue of the Company immediately upon the Listing (as defined in the Prospectus).

Diluted earnings per share is equal to the basic earnings per share for the three-month and nine-month period ended 31 December 2015, as there were no dilutive potential ordinary shares outstanding during the three-month and nine-month period ended 31 December 2015.

Diluted loss per share is equal to the basic loss per share for the three-month and nine-month period ended 31 December 2016, as the Company's outstanding share options where applicable had an anti-dilutive effect to the basic loss per share calculation, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

## 7. DIVIDEND

No dividend has been paid or proposed by the Company since its date of incorporation.

Before the Company became the holding company of the Group, a member of the Group declared a dividend of HK\$3,000,000 on 31 May 2016 to the ultimate beneficial owner of the Group, namely Mr. Wong Man Wai. Payment of said dividend was made on 1 June 2016.

The Board does not recommend the payment of a dividend for the nine-month period ended 31 December 2016.

	For the three-month period ended 31 December		For the nine-month period ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Dividend paid	—	—	<b>3,000</b>	43,000

# Management Discussion and Analysis

## BUSINESS REVIEW

We are a food and beverage group in Hong Kong operating casual dining restaurants under a portfolio of brands, specialising in operating restaurants at the Hong Kong International Airport (the “HKIA”). The Group is operating four restaurants at the HKIA as well as one restaurant in the urban area of Hong Kong. Apart from operating our own restaurants, we also franchise our brands “*Taiwan Beef Noodle* (台灣牛肉麵)” and “*Chinese Kitchen* (中國廚房)” for the operation of a restaurant located at Tsim Sha Tsui, Hong Kong.

The Group’s strategic objective is to further strengthen its leading position in operating restaurants at the HKIA while continue to look for suitable opportunities to extend its business in the urban area of Hong Kong, as well as tap into the casual dining market in the PRC. The Company was successfully listed on the GEM of the Stock Exchange on 8 August 2016 and the proceeds raised from the Listing has strengthened the Group’s financial position and we will implement our future plans according to the details as disclosed in the section headed “**Future Plans and Use of Proceeds**” of the Prospectus.

In September 2016, the Group launched a new product — mooncakes, taking pride in its traditional baking techniques and all of the mooncakes were made locally. For the nine-month period ended 31 December 2016, sales of mooncakes contributed approximately HK\$0.5 million to the Group’s revenue.

## FINANCIAL REVIEW

### Revenue

The revenue of the Group decreased by approximately 31.7% from approximately HK\$101.0 million for the nine-month period ended 31 December 2015 to approximately HK\$69.0 million for the nine-month period ended 31 December 2016. The decline in revenue was mainly due to the disposal of Sunny Echo Limited, a former subsidiary of our Group, on 30 October 2015 and the temporary cessation of the operation of a takeaway kiosk and a restaurant of the Group at the HKIA during July 2016 and November 2016 respectively.

### Cost of inventories sold

Cost of inventories sold primarily consists of the cost of all the food and beverages used in restaurant operations. For the nine-month periods ended 31 December 2015 and 2016, the cost of materials consumed amounted to approximately HK\$22.8 million and HK\$13.2 million respectively, representing a drop of approximately 42.1%. Such decrease was mainly due to the disposal of Sunny Echo Limited.

### Gross profit and gross profit margin

The Group’s gross profit, which equals to the revenue minus cost of inventories sold, for the nine-month period ended 31 December 2016 was approximately HK\$55.8 million, representing a decline of approximately 28.6% from approximately HK\$78.2 million for the nine-month period ended 31 December 2015. The decline in gross profit was mainly due to the disposal of Sunny Echo Limited and temporary cessation of the operation of takeaway kiosk and a restaurant of the Group at the HKIA during July 2016 and November 2016 respectively. The gross profit margin has improved to approximately 80.8% (nine-month period ended 31 December 2015: approximately 77.4%) for the nine-month period ended 31 December 2016. This was mainly due to the disposal of Sunny Echo Limited, which had a relatively lower gross profit margin.

## Management Discussion and Analysis

The gross profit margin for the Group's restaurants operating at the HKIA were 87.3% and 81.6% for the nine-month periods ended 31 December 2015 and 2016 respectively. The gross profit margin for the Group's restaurants operating in the urban area of Hong Kong were 72.8% and 71.3% for the nine-month periods ended 31 December 2015 and 2016 respectively.

The relatively higher gross profit margin recorded at the restaurants operating at the HKIA during the nine-month periods ended 31 December 2015 and 2016 was attributable to the centralisation of purchases in bulk orders and with discounts through the Group's centralised warehouse at Tsing Yi, Hong Kong. Leveraging on the concentrated pedestrian traffic and generally quick dining manner of the travellers, the Group's restaurants at the HKIA recorded a higher seat turnover rate which enabled the Group to maximise the utilisation of food ingredients and reduce wastages.

Further, the Group's restaurants and takeaway kiosk operating at the HKIA sold more beverage items than the Group's restaurants in the urban area of Hong Kong. Apart from that, the menu items are not entirely the same at the Group's restaurants operating under the same brands "Taiwan Beef Noodle (台灣牛肉麵)" and "Chinese Kitchen (中國廚房)" at the HKIA and in the urban area of Hong Kong. The Group offers seafood in the urban area of Hong Kong which targets the tourists and mass market customers, while we generally offer simple food items to cater to the needs of the travelers who look for casual dining in a quick and convenient manner at the HKIA. We consider that the sales of beverage generally have higher gross profit margin while the sales of seafood generally have lower gross profit margin, and these lead to the generally higher gross profit margin of the Group's restaurants and takeaway kiosk at the HKIA.

### Other revenue and other income

During the nine-month periods ended 31 December 2015 and 2016, the Group's other revenue and other income mainly comprised tips income, management fee income and net foreign exchange gain.

	For the nine-month period ended	
	31 December	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Tips income	416	509
Bank interest income	141	2
Management fee income	306	306
Net foreign exchange gain	595	568
Others	438	27
Reversal of impairment loss recognised in amount due from an associate	—	2,400
<b>Total</b>	<b>1,896</b>	<b>3,812</b>

# Management Discussion and Analysis

The other revenue and other income decreased from approximately HK\$3.8 million for the nine-month period ended 31 December 2015 to approximately HK\$1.9 million for the nine-month period ended 31 December 2016, representing a decrease of approximately 50.0%, which was mainly resulting from the absence of an one-off income from reversal of impairment loss recognised in respect of amount due from an associate recognised during the nine-month period ended 31 December 2015.

## Staff costs

Staff costs primarily consist of salaries, wages and allowances, pension costs and other employee benefits. The staff costs decreased from approximately HK\$29.1 million for the nine-month period ended 31 December 2015 to approximately HK\$23.5 million for the nine-month period ended 31 December 2016, representing a decrease of approximately 19.2%. Such decrease was mainly due to the disposal of Sunny Echo Limited.

Due to changes in local labour laws and the general increase in labour costs in Hong Kong, the salary level of employees in the catering industry in Hong Kong has generally increased in recent years. The Directors expect the staff costs to continue to increase as inflationary pressures in Hong Kong continue to drive up wages and as a result of the expected expansion of its business.

The Directors believe the resulting upward pressure on the total staff costs as a percentage of total revenue could be mitigated by (i) prioritising internal transfers and re-allocations of employees from existing restaurants; (ii) increasing productivity of the staff by providing training; and (iii) minimising attrition levels by continuing to implement various employee retention initiatives to promote employee loyalty and motivate the employees.

## Employees and remuneration policies

As at 31 December 2016, the Group had approximately 146 employees (as at 31 December 2015: 153 employees). Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee.

## Depreciation

The Group recorded depreciation of approximately HK\$2.6 million and HK\$1.7 million for the nine-month periods ended 31 December 2015 and 2016, respectively for its leasehold improvements, furniture and fixtures, catering and other equipment and motor vehicles. The decrease of depreciation for the nine-month period ended 31 December 2016 as compared to that of the nine-month period ended 31 December 2015 was mainly due to the disposal of Sunny Echo Limited.

## Property rentals and related expenses

The property rentals and related expenses for the nine-month period ended 31 December 2016 amounted to approximately HK\$22.4 million, representing a decrease of approximately 11.1% as compared with that of the nine-month period ended 31 December 2015 amounted to approximately HK\$25.2 million. Such decrease was mainly due to the disposal of Sunny Echo Limited.

# Management Discussion and Analysis

As the Group intends to continue to open new restaurants and expand the restaurant network, the Directors expect the property rentals and related expenses to increase generally in the future. Besides, the Directors will continue to seek better control in the property rental and related expenses, such as entering into long-term rental agreements so as to maintain the rentals at a reasonable level.

## Fuel and utility expenses

Fuel and utility expenses primarily consist of fuel expenses, electricity expenses and water supplies of the Group. For the nine-month periods ended 31 December 2015 and 2016, the total fuel and utility expenses amounted to approximately HK\$4.3 million and approximately HK\$2.7 million, respectively. Such decrease was mainly due to the disposal of Sunny Echo Limited.

## Administrative expenses

The administrative expenses represent mainly expenses incurred for our operations, including cleaning expenses, consumables stores, transportation and travelling, credit card commission, entertainment, repair and maintenance, insurance, legal and professional fee and marketing and promotion expenses.

Administrative expenses increased from approximately HK\$16.9 million for the nine-month period ended 31 December 2015 to approximately HK\$24.1 million for the nine-month period ended 31 December 2016, representing an increase of approximately 42.6%. This was mainly attributable to the listing fee of approximately HK\$15.1 million incurred during the nine-month period ended 31 December 2016.

## Income tax expenses

The income tax expenses decreased from HK\$2.3 million for nine-month period ended 31 December 2015 to HK\$1.1 million for the nine-month period ended 31 December 2016.

## Finance costs

The Group's finance costs slightly decreased from HK\$0.3 million for the nine-month period ended 31 December 2015 to HK\$0.2 million for the nine-month period ended 31 December 2016.

## Loss

The Group recorded a loss of HK\$12.7 million for the nine-month period ended 31 December 2016 as compared to a profit of HK\$8.4 million for the corresponding period in 2015. The loss was mainly attributable to (i) the decline in revenue of HK\$32 million mainly resulting from the disposal of Sunny Echo Limited and temporary cessation of the operation of take-away kiosk and a restaurant of the Group at the HKIA during July 2016 and November 2016 respectively, (ii) the recognition of listing expenses of HK\$15.1 million and (iii) the recognition of share option expenses of HK\$2.8 million for the nine-month period ended 31 December 2016.

# Management Discussion and Analysis

## Use of net proceeds from the Listing

The net proceeds from the Placing (as defined in the Prospectus), after deducting the actual underwriting fees and expenses paid by the Company in connection thereto, were approximately HK\$41.6 million.

	<b>Use of proceeds as shown from the Listing Date to 31 March 2017</b>	Actual use of proceeds from the Listing Date to 31 December 2016
	<b>HK\$'000 (unaudited)</b>	HK\$'000 (unaudited)
Renovation of existing restaurant	<b>3,000</b>	2,500
Opening new restaurants	<b>15,000</b>	—
Marketing activities (including recruitment, advertisement and promotion activities) to promote brand awareness	<b>600</b>	231
Upgrade existing restaurant facilities and system	<b>800</b>	127
	<b>19,400</b>	2,858

The Directors will constantly evaluate the Group's business objective and will change or modify the plans against the changing market condition to suit the business growth of the Group.

All the unutilised balances have been placed in licensed banks in Hong Kong.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Saved as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets.

## LIQUIDITY AND FINANCIAL RESOURCES

### Capital structure

For the change in the capital structure of the Group from 31 March 2016 to the Listing Date, please refer to the section headed "Share Capital" of the Prospectus, and there has been no material change in the capital structure of the Company since the Listing Date.

### Cash position

As at 31 December 2016, the cash and cash equivalents of the Group amounted to approximately HK\$65.8 million (as at 31 December 2015: approximately HK\$18.6 million), representing an increase of approximately 253.8% as compared to that at 31 December 2015. The increase was mainly due to the net proceeds from the Listing. The effect was partially offset by the dividend paid of HK\$3.0 million on 1 June 2016.

# Management Discussion and Analysis

## Borrowing

As at 31 December 2016, the total borrowing of the Group, all of which were denominated in Hong Kong dollars, amounted to approximately HK\$3.8 million (31 December 2015: approximately HK\$4.0 million). Among the borrowing, approximately HK\$2.6 million (31 December 2015: approximately HK\$4.0 million) was derived from the bank borrowings which bears a floating interest rates from 4.25% to 5.25% and 4.25% to 5.25% per annum as at 31 December 2015 and 31 December 2016, respectively. Approximately HK\$1.2 million was derived from obligation under finance lease of the Group's motor vehicle (31 December 2015: Nil) at 1.99% per annum.

## Pledge of assets

As at 31 December 2016, a HK\$7,500,000 pledged deposits provided by the Group held at banks as security for due performance for a licence agreement for our restaurants operating at HKIA (as at 31 December 2015: Nil).

## Gearing ratio

As at 31 December 2016, the gearing ratio of the Group was approximately 4.2% (as at 31 December 2015: approximately 34.6%). The decrease was mainly attributable to the net proceeds from Listing. The effect is partially offset by the repayment of bank borrowings during the nine-month period ended 31 December 2016. The gearing ratio is calculated based on the total borrowings, which include bank borrowings and obligation under finance lease, divided by the equity attributable to owner of the Company at the end of the respective period.

## COMMITMENTS

As at 31 December 2016, the Group did not have any significant capital commitments (at 31 December 2015: HK\$1.4 million).

## SIGNIFICANT INVESTMENTS

Except for investments in subsidiaries, as at 31 December 2016, the Group did not hold any significant investments (as at 31 December 2015: Nil).

## CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (as at 31 December 2015: Nil).

## FOREIGN EXCHANGE EXPOSURE

The Group operates in Hong Kong with majority of the transactions being settled in HKD, United States Dollars ("USD"), Renminbi ("RMB") and Taiwan New Dollars ("TWD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Group.

The Group is not exposed to foreign exchange risk in respect of HKD against USD as long as this currency is pegged.

The transactions and monetary assets denominated in RMB and TWD are minimal during the nine-month periods ended 31 December 2015 and 2016, the Group considers that there is no significant foreign exchange risks in respect of RMB and TWD for both periods.

# Management Discussion and Analysis

## PROSPECT

Our strategic objective is to continue to strengthen our leading position in operating restaurants at the HKIA. In particular, we have been strategically looking for opportunities to introduce popular restaurant brands to operate at the HKIA through franchising or other cooperative arrangements. In addition, to reinforce the Group's customers' perception of freshness, we continue to upgrade some of the Group's existing restaurants at the HKIA through renovation and upgrading the facilities and systems.

Apart from our business at the HKIA, to diversify the Group's revenue sources, we have been looking for suitable locations to open new restaurants in the urban area of Hong Kong. We intend to open new restaurants under the Group's self-owned brand "*Taiwan Beef Noodle* (台灣牛肉麵)" in the coming two years in districts with high customer traffic such as Central and Western District, Mongkok and Wanchai.

In addition to the operation of restaurants under the Group's own brands in Hong Kong, we also intend to develop a more asset-light business line which will allow the Group's flexibility to other opportunities in the constantly changing catering industry. During the period under review, we have franchised the Group's self-owned brands "*Taiwan Beef Noodle* (台灣牛肉麵)" and "*Chinese Kitchen* (中國廚房)" for the operation of a restaurant in Tsim Sha Tsui, Hong Kong. For synergy and efficiency in business growth and to fully utilise our resources, we will continue to identify suitable opportunities for not only franchising of our self-owned brands, but also joint venture and cooperation arrangements with other popular restaurant brands.

With our long history of development in the catering industry in Hong Kong and the experience and expertise which we have accumulated throughout the years, we intend to progressively expand into the PRC casual dining market. Benefiting from the ongoing growth of casual dining market in the PRC, we plan to pursue a growth strategy by opening a restaurant under the Group's self-owned brand "*Taiwan Beef Noodle* (台灣牛肉麵)" in the coming two years in first-tier cities such as Guangzhou and Shanghai in the PRC which we consider having strong market potential. We will keep monitoring and searching for market opportunities and will conduct in-depth researches and feasibility studies before embarking on our expansion plan in the PRC.

Looking ahead, the Group will endeavor to strengthen the development of its existing businesses and to provide steady return as well as growth prospects for the Company's shareholders.

## CORPORATE GOVERNANCE PRACTICE

During the period from the Listing Date to 31 December 2016, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code") contained in Appendix 15 to the GEM Listing Rules, except for the deviations of Code Provisions A.2.1 and A.2.7.

# Management Discussion and Analysis

## CHAIRMAN AND CHIEF EXECUTIVE

Paragraph A.2.1 of the Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Wong Man Wai is the Chairman and the Chief Executive Officer of the Company. Considering that Mr. Wong Man Wai has been operating and managing the Group since 2004, the Board believes that it is in the best interest of the Group to have Mr. Wong Man Wai taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from paragraph A.2.1 of the Code is appropriate in such circumstance.

Under the Code provision A.2.7, the chairman of the Board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the nine-month period under review, since the chairman of the Board was also an executive Director, did not hold such kind of private meetings with the non-executive Directors, it was impracticable for the Company to follow the requirement under Code provision A.2.7. The chairman of the Board further considered that it was unnecessary as it would be more transparent to let the non-executive Directors speak out their views to all executive directors in the full Board meetings which would be held at least four times a year. Besides, the chairman of the Board, being an executive director himself, always welcomes all non-executive Directors to directly communicate with him via his email or phone to discuss any matters of the Company from time to time.

## INTEREST OF THE COMPLIANCE ADVISER

As notified by the Group's compliance adviser, RaffAello Capital Limited (the "**Compliance Adviser**"), as at 31 December 2016, save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 16 December 2015, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Group or in any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## COMPETING BUSINESS

During the nine-month period ended 31 December 2016, none of the Directors, the controlling shareholders or the substantial shareholders of the Company or any of their respective close associates (as defined under the GEM Listing Rules) engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or had any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the nine-month period ended 31 December 2016.

# Management Discussion and Analysis

## THE INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares (the “**Shares**”), underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”)) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long positions in the Shares

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of ordinary shares interested</b>	<b>Percentage of shareholding</b>
Mr. Wong Man Wai	Interest of controlled corporation	1,500,000,000	75%

These 1,500,000,000 Shares are held by Fortune Round Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong. Therefore, Mr. Wong is deemed to be interested in all the Shares held by Fortune Round Limited for the purpose of the SFO.

### Long positions in underlying Shares

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of underlying Shares interested</b>	<b>Percentage of shareholding</b>
Ms. Lam Wai Kwan	Beneficial owner	20,000,000	1%
Mr. Chan Chak To Raymond	Beneficial owner	20,000,000	1%

On 5 October 2016, each of Ms. Lam Wai Kwan and Mr. Chan Chak To Raymond was granted 20,000,000 options exercisable within 10 years from 5 October 2016 to subscribe for Shares at the exercise price of HK\$0.163 per Share pursuant to the Share Option Scheme (as defined below).

# Management Discussion and Analysis

## Long positions in the shares of associated corporation

Name of Director	Name of associated corporation	Capacity	Number of ordinary shares interested	Percentage of shareholding
Mr. Wong Man Wai	Fortune Round Limited	Beneficial owner	one	100%

Save as disclosed above and so far as is known to the Directors, as at 31 December 2016, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

## THE INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016 and so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests and short positions in the Shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

## Long positions in the Shares

Name of shareholders	Capacity	Number of ordinary shares in interested	Percentage of shareholding
Fortune Round Limited	Beneficial owner (Note 1)	1,500,000,000	75%
Ms. Li Wing Yin	Interest of spouse (Note 2)	1,500,000,000	75%

Notes:

- Fortune Round Limited is a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong Man Wai. Therefore, Mr. Wong Man Wai is deemed to be interested in all the Shares held by Fortune Round Limited for the purposes of the SFO. Mr. Wong Man Wai is the sole director of Fortune Round Limited.
- Ms. Li Wing Yin is the spouse of Mr. Wong Man Wai. She is deemed to be interested in the Shares in which Mr. Wong Man Wai is interested under the SFO.

# Management Discussion and Analysis

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the Shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company under Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company had adopted a share option scheme (the “**Share Option Scheme**”) on 21 July 2016.

On 5 October 2016, the Company granted share options exercisable within 10 years to two executive Directors and one eligible participant for a total of 60,000,000 ordinary shares of HK\$0.01 each of the Company at the exercise price of HK\$0.163 per share, under the share option scheme adopted by the Company on 21 July 2016. As at the date of this report, no option has been exercised.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standard of dealing, as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares. Having made specific enquiry of all the Directors, all Directors have confirmed that they have complied with the required standard of dealing and the code of conduct for securities transactions by the Directors for the nine-month period ended 31 December 2016.

## AUDIT COMMITTEE

The Company has established the audit committee pursuant to a resolution of the Directors passed on 21 July 2016 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. Among other things, the primary duties of the audit committee are to make recommendations to the Board on appointment or reappointment and removal of external auditor; review financial statements of our Company and judgments in respect of financial reporting; and oversee the effectiveness of the internal control procedures of the Group. The audit committee consists of three independent non-executive Directors, namely Mr. Ma Yiu Ho Peter, Mr. Cheng Wing Hong and Mr. Cai Chun Fai. Mr. Ma Yiu Ho Peter is the chairman of the audit committee. The audit committee has reviewed the Quarterly Financial Statements of the Group for the nine-month period ended 31 December 2016.

By order of the Board

**Royal Catering Group Holdings Company Limited**

**Wong Man Wai**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 8 February 2017

*At the date of this report, the executive Directors are Mr. Wong Man Wai, Mr. Chan Chak To Raymond and Ms. Lam Wai Kwan; and the independent non-executive Directors are Mr. Ma Yiu Ho Peter, Mr. Cheng Wing Hong and Mr. Cai Chun Fai.*