

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



2018

First Quarterly Report

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Royal Catering Group Holdings Company Limited

First Quarterly Report 2018

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FINANCIAL HIGHLIGHTS

- The Group recorded an unaudited revenue of approximately HK\$24.4 million for the three-month period ended 30 June 2018 (three-month period ended 30 June 2017: approximately HK\$21.8 million), representing an increase of approximately 11.9% 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\$2.3 million for the three-month period ended 30 June 2018 (three-month period ended 30 June 2017: unaudited profit and total comprehensive income attributable to owners of the Company of approximately HK\$1.7 million).
- The basic and diluted loss per share attributable to owners of the Company for the three-month period ended 30 June 2018 were HK0.09 cents (three-month period ended 30 June 2017: the basic and diluted earnings per share attributable to owners of the Company of HK0.08 cents).



The board (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three-month period ended 30 June 2018, together with the unaudited comparative figures for the respective corresponding period in 2017 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three-month period ended 30 June 2018

	Notes	Three-month period ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	24,390	21,777
Cost of inventories sold		(4,324)	(4,338)
Gross profit		20,066	17,439
Other revenue and other income		1,179	668
Staff costs		(7,603)	(7,542)
Depreciation of property, plant and equipment		(1,370)	(977)
Property rentals and related expense		(6,546)	(8,869)
Fuel and utility expenses		(776)	(890)
Unrealised loss arising from change in fair value of financial assets at fair value through profit or loss		(928)	(170)
Administrative expenses		(4,665)	(3,245)
Loss from operations		(643)	(3,586)
Gain on bargain purchase	7	–	3,119
Share of result of an associate		(509)	1,878
Finance costs	4	(500)	(35)
(Loss)/profit before tax	5	(1,652)	1,376
Income tax expenses	6	(448)	(155)
(Loss)/profit and total comprehensive (loss)/income for the period		(2,100)	1,221
(Loss)/profit and total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		(2,252)	1,662
Non-controlling interests		152	(441)
		(2,100)	1,221
(Loss)/earnings per share attributable to owners of the Company			
Basic and diluted (loss)/earning per share (HK cents)	8	(0.09)	0.08



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 30 June 2018

	Attributable to owners of the Company						
	Share capital	Share premium	Share option reserve	(Accumulated losses)/ retained earnings	Sub-total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2017 (Audited)	22,028	72,957	2,750	(2,237)	95,498	–	95,498
Profit/(loss) and total comprehensive income/ (loss) for the period	–	–	–	1,662	1,662	(441)	1,221
Acquisition of a subsidiary	–	–	–	–	–	5,679	5,679
At 30 June 2017 (Unaudited)	22,028	72,957	2,750	(575)	97,160	5,238	102,398
At 1 April 2018 (Audited)	26,434	113,760	2,750	(2,660)	140,284	7,291	147,575
Loss and total comprehensive loss for the period	–	–	–	(2,252)	(2,252)	152	(2,100)
At 30 June 2018 (Unaudited)	26,434	113,760	2,750	(4,912)	138,032	7,443	145,475



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in 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 (the “**Shares**”) have been listed on GEM of the Stock Exchange by way of placing (the “**Listing**”) with effect from 8 August 2016 (the “**Listing Date**”). The address of the Company’s registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is at Unit 1901, 19/F, The Sun’s Group Centre, 200 Gloucester Road, Wanchai, Hong Kong. Its ultimate holding company is Fortune Round Limited, a company incorporated in the British Virgin Islands (“**BVI**”) with limited liability and wholly-owned by Mr. Wong Man Wai (“**Mr. Wong**”), a Director.

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

The unaudited condensed consolidated financial statements (the “**Quarterly Financial Statements**”) are presented in Hong Kong dollar (“**HK\$**”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (**HK\$’000**), unless otherwise stated.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Quarterly Financial Statements for the three-month period ended 30 June 2018 have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively, “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the GEM Listing Rules. Except for the application of new and revised HKFRSs issued by the HKICPA, which are effective for the annual periods beginning on or after 1 January 2018, the principal accounting policies used in the Quarterly Financial Statements for the three-month period ended 30 June 2018 are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2018.

In the current period, the Group has applied all new and revised HKFRSs issued by the HKICPA that are effective for the Group’s financial year beginning on or after 1 January 2018. The application of the new and revised HKFRSs in the current period has had no material effect on the amounts reported and/or the disclosures set out in the Quarterly Financial Statements.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs is not expected to have material impact on the Quarterly Financial Statements.

The Quarterly Financial Statements for the three-month period ended 30 June 2018 have not been audited by the Group’s auditors but have been reviewed by the Company’s audit committee.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

	Three-month period ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Restaurants operations	23,453	20,564
Sales of food	791	1,078
Franchise fee income	146	135
	24,390	21,777

4. FINANCE COSTS

	Three-month period ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	61	35
Interest on unlisted corporate bonds	429	–
Interest on finance lease	10	–
	500	35



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. (LOSS)/PROFIT BEFORE TAX

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

	Three-month period ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	4,324	4,338
Depreciation of property, plant and equipment	1,370	977
Amortisation of intangible assets	108	–
Lease payments under operating leases:		
– Minimum lease payments	5,547	6,749
– Contingent rents	331	1,475
	5,878	8,224
Employee benefit expenses (including directors' remuneration):		
– Salaries, allowance and benefits in kind	7,337	7,179
– Retirement benefit scheme contributions	281	363
	7,618	7,542
Unrealised loss arising from change in fair value of financial assets at fair value through profits of loss	(928)	–



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSES

	Three-month period ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
– Hong Kong Profits Tax	466	158
Deferred tax:		
– Credit for the period	(18)	(3)
	448	155

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both period.

7. GAIN ON BARGAIN PURCHASE

On 31 May 2017, Alliance Catering Company Limited (“**Alliance Catering**”), a wholly-owned subsidiary of the Company, Du Hsiao Yueh (Hong Kong) Company Limited (“**DHY(HK)**”) and two other independent third parties entered into the shareholders’ agreement, pursuant to which Alliance Catering subscribed for and DHY(HK) allotted and issued 5,400,000 of DHY (HK)’s shares (the “**Subscription Share**”), representing 60% of the share capital of, DHY(HK) at a total consideration of HK\$5.4 million (the “**Subscription**”). The subscription price was HK\$1.00 per Subscription Share. Completion of the Subscription took place on 13 June 2017 and a gain on bargain purchase for the Subscription of approximately HK\$3,119,000 was recorded by the Group. DHY(HK) became a non-wholly owned subsidiary of the Company since then.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. (LOSS)/EARNINGS PER SHARE

The computations of basic and diluted (loss)/earnings per share attributable to owners of the Company are based on the following data:

	Three-month period ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/earnings per Share		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per Share	(2,252)	1,662

	Three-month period ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per Share	2,643,360	2,202,800

The number of ordinary Shares for the purpose of calculating basic and diluted loss per Share for the three-month periods ended 30 June 2017 and 2018 have been determined on the assumption that 2,202,800,000 and 2,643,360,000 ordinary Shares, respectively of the Company have been in issue throughout the period, had been effective on 1 April 2017 and 2018, respectively.

As the Company's outstanding share options, where applicable, had an anti-dilutive effect to the basic (loss)/earnings per Share calculation for the three-month period ended 30 June 2017 and 2018, the conversion of the above potential dilutive Shares is not assumed in the calculation of diluted (loss)/earnings per Share.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. DIVIDEND

No dividend has been paid or proposed by the Company for the three-month period ended 30 June 2018 (for the three-month period ended 30 June 2017: Nil).

10. EVENTS AFTER THE REPORTING PERIOD

No significant event of the Group occurred after the reporting period.



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. As at 30 June 2018, we were operating three restaurants under our self-owned brands, including “Taiwan Beef Noodle (台灣牛肉麵)”, “Chinese Kitchen (中國廚房)” and “Macao Harbour (阿瑪港澳門餐廳)” and one takeaway kiosk under the brand “Coffee Express” at the Hong Kong International Airport (the “**HKIA**”). During the three-month period ended 30 June 2018, a restaurant at the HKIA under the brand “Tasty Congee & Noodle Wantun Shop (正斗)” was closed and the licenses for operating a restaurant under the brand “Nosh Café & Bar” at the HKIA expired in May 2018. The Group has 100% interest in the restaurant under the brand “Nosh Café & Bar” and 42% interest in the restaurant under the brand “Tasty Congee & Noodle Wantun Shop (正斗)”.

Apart from operating our self-owned brands restaurants, we have also franchised our brands “Taiwan Beef Noodle (台灣牛肉麵)” and “Chinese Kitchen (中國廚房)” for the operation of a restaurant at Canton Road, Tsim Sha Tsui.

On the other hand, we have obtained the franchising rights in Hong Kong of three famous catering brands, including “Du Hsiao Yueh Restaurant (度小月)”, which is a household name of Taiwanese cuisine, “Flamingo Bloom”, which specializes in crafted floral tea, and “Hanlin Tea Room/Hut (翰林茶館/棧)”, which is a famous Taiwanese-style tea restaurant. In June 2017, the first restaurant under the brand “Du Hsiao Yueh Restaurant (度小月)” commenced operations in Harbour City, Tsim Sha Tsui. The second restaurant under the brand “Du Hsiao Yueh Restaurant (度小月)” commenced operations in Times Square, Causeway Bay in June 2018 (the “**New Franchised Restaurant**”). Further, our first restaurant under the brand “Flamingo Bloom” commenced operations in IFC, Central in July 2018.

Presently, we are negotiating with FLM Food for the possibility and feasibility of forming a formal business cooperation for carrying out catering business under the brand “福廚房” in Hong Kong, Macau, and the PRC, and the Group to purchase pre-packaged food products under the brand “Fook Lam Moon Fine Foods” or “福臨門尚品” from FLM Food for sale at our outlets or outlets to be operated by the joint venture to be established by us and FLM Food. Also, we are strategically looking for new and suitable locations in the urban area to open restaurants. In June 2018, we entered into a provisional sale and purchase agreement in relation to the acquisition of a property situated at 12th Floor, Great Smart Tower, No. 230 Wan Chai Road, Hong Kong for a consideration of HK\$29.8 million.

The Group’s strategic objective is to further strengthen our position in operating restaurants at the HKIA whilst continuing to look for suitable opportunities to expand our business in the urban area of Hong Kong, as well as tap into the casual dining market in the PRC.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by approximately 11.9% from approximately HK\$21.8 million for the three-month period ended 30 June 2017 to approximately HK\$24.4 million for the three-month period ended 30 June 2018. The increase in revenue was mainly attributable to the commencement of business of the New Franchised Restaurant.

Cost of inventories sold

Cost of inventories sold primarily consists of the cost of all the food and beverages used in restaurant operations. The cost of inventories sold of the Group remained stable at approximately HK\$4.3 million for the three-month periods ended 30 June 2017 and 2018.

Gross profit and gross profit margin

The Group's gross profit, which is equal to revenue minus cost of inventories sold, for the three-month period ended 30 June 2018 was approximately HK\$20.1 million, representing an increment of approximately 15.5% from approximately HK\$17.4 million for the three-month period ended 30 June 2017. The increase in gross profit was mainly attributable to the commencement of business of the New Franchised Restaurant.

The gross profit margin for the Group's restaurants operating at the HKIA were 80.7% and 81.4% for the three-month period ended 30 June 2017 and 2018, respectively. The gross profit margin for the Group's restaurants operating in the urban area of Hong Kong were 73.1% and 83.6% for the three-month period ended 30 June 2017 and 2018, respectively.

The improvement of gross profit margin for the Group's restaurants operating in the urban area of Hong Kong was attributable to the commencement of business of the New Franchised Restaurant. The better margin of New Franchised Restaurant was resulted from outsourcing its procurement function to a service provider with a more sophisticated inventory management control.

The relatively stable gross profit margin for the restaurants operating at the HKIA for the three-month period ended 30 June 2017 and 2018 were attributable to the centralisation of purchases in bulk orders and the discounts through the centralised warehouse services from a services provider to the Group. 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 wastage.



MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue and other income

	Three-month period ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	230	–
Dividend income	680	–
Management fee income	43	102
Sundry income	2	258
Tip income	65	101
Net foreign exchange gain	159	207
Total	1,179	668

Staff costs

Staff costs primarily consist of salaries, wages and allowances, pension costs and other employee benefits. The staff costs remained stable at HK\$7.5 million and HK\$7.6 million for the three-month period ended 30 June 2017 and 30 June 2018, respectively.

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 that the staff costs will continue to increase as inflationary pressures in Hong Kong continue to drive up wages, and owing to the expected expansion of its business.

The Directors believe that 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 to motivate employees.



MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policies

As at 30 June 2018, the Group had 173 employees (at 30 June 2017: 186 employees). The decrease in number of staff during the period was mainly attributable to the closure of the restaurant under the brand “Nosh Café & Bar” at the HKIA. Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee.

Depreciation

The depreciation for the three-month period ended 30 June 2018 amounted to approximately HK\$1.4 million, representing an increase of approximately 40% from approximately HK\$1.0 million for the three-month period ended 30 June 2017. The increase in depreciation was mainly due to the commencement of business of the New Franchised Restaurant.

Property rentals and related expenses

The property rentals and related expenses for the three-month period ended 30 June 2018 amounted to approximately HK\$6.5 million, representing a decrease of approximately 27.0% from approximately HK\$8.9 million for the three-month period ended 30 June 2017. The decrease in property rentals and related expenses was mainly due to the closure of the restaurant under the brand “Nosh Café & Bar” at the HKIA and decrease in contingent rents during the three-month period ended 30 June 2018.

As the Group intends to continue to open new restaurants and expand the restaurant network, the Directors expect that the property rentals and related expenses will increase gradually in the future. Meanwhile, the Directors will continue to seek for 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 three-month periods ended 30 June 2017 and 2018, the total fuel and utility expenses remained stable at approximately HK\$0.9 million and HK\$0.8 million, respectively.

Administrative expenses

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

Administrative expenses increased from approximately HK\$3.2 million for the three-month period ended 30 June 2017 to approximately HK\$4.7 million for the three-month period ended 30 June 2018, representing an increase of approximately 46.9%, which was mainly due to renovation reinstatement works in relation to the closure of the restaurant under the brand “Nosh Café & Bar” at the HKIA incurred in May 2018.

Income tax expenses

The income tax expenses increased by 100% to approximately HK\$0.4 million for the three-month period ended 30 June 2018 from approximately HK\$0.2 million for the three-month period ended 30 June 2017. The increase in income tax expenses was mainly due to the commencement of business of the New Franchised Restaurant.



MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

The Group's finance costs increased from approximately HK\$35,000 for the three-month period ended 30 June 2017 to approximately HK\$0.5 million for the three-month period ended 30 June 2018. The increase in finance costs was mainly due to the unlisted corporate bonds amounted to approximately HK\$21.0 million issued by the Company in August 2017 and September 2017 which bear a fixed interest rate at 8.00% per annum.

(Loss)/profit

The Group recorded a loss of HK\$2.1 million for the three-month period ended 30 June 2018 as compared to a profit of approximately HK\$1.2 million for the corresponding period in 2017. The loss was mainly due to (i) the loss arising from change in fair value of financial assets classified as held for trading investments; (ii) decrease in share of result of an associate mainly resulting from closure of a restaurant at the HKIA under the brand "Tasty Congee & Noodle Wantun Shop (正斗)" at the HKIA; (iii) increase in administrative expenses mainly resulting from renovation reinstatement works in relation to the closure of the restaurant under the brand "Nosh Café & Bar" at the HKIA; and (iv) the absence of gain on bargain purchase, which was incurred for the three months ended 30 June 2017.

Use of net proceeds from the Listing

The net proceeds from the Listing, after deducting the actual underwriting fees and expenses paid by the Company in connection thereto, were approximately HK\$36.8 million. The intended use of proceeds (the "Intended Use of Proceeds") as set out in the prospectus of the Company dated 1 August 2016 (the "Prospectus") and subsequently amended as summarised in the announcement of the Company dated 9 April 2018 and the actual use of proceeds from the Listing Date to 30 June 2018 are set forth below:

	Intended Use of Proceeds HK\$'000 (Unaudited)	Actual use of proceeds from the Listing Date to 30 June 2018 HK\$'000 (Unaudited)
Renovation of existing restaurant	7,260	2,500
Opening new restaurants	30,820	–
Marketing activities (including recruitment, advertisement and promotion activities) to promote brand awareness	2,283	1,080
Upgrade existing restaurant facilities and system	930	900
Total	41,293	4,480

The Directors will constantly evaluate the Group's business objectives and will change or modify the plans in accordance with the changing market conditions to suit the business growth of the Group.

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



MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

There was no material acquisition or disposal of subsidiaries, associates or joint ventures during the three-month period ended 30 June 2018.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2018, save for the Group's interests in (a) investment funds ; and (b) property as set out below, the Group did not hold any significant investments.

Investment Funds

In June 2017, the Group has subscribed for (a) Allianz US High Yield Share Class AM (HKD), a sub-fund of Allianz Global Investors Fund, which is constituted as an open-ended investment company in Luxembourg at an aggregate subscription amount of HK\$20 million and (b) AB-Global High Yield Portfolio (AT HKD), a portfolio of AB FCP I, a mutual investment fund domiciled in Luxembourg at an aggregate subscription amount of HK\$20 million. Although the Group's investment in funds suffered unrealised loss of amount approximately HK\$0.9 million for the three-month period ended 30 June 2018 (for the three-month period ended 30 June 2017: HK\$0.2 million) due to unstable global capital market, the Group received dividends of amount approximately HK\$0.7 million (for the three-month period ended 30 June 2017: Nil). As at 30 June 2018, investment funds amounted to approximately HK\$36.5 million (2017: HK\$19.6 million).

The Directors considered that the investment funds, with the reputable dividend paid track record, can offer a better return to the Group.

Property

On 30 June 2018, Kingdom Star Investment Limited ("**Kingdom Star**"), a wholly-owned subsidiary of the Company, as the purchaser and an independent third party as the vendor entered into a provisional agreement to acquire a property situated at 12th Floor, Great Smart Tower, No. 230 Wan Chai Road, Hong Kong (the "**Property**") in a "bare shell" basis for a consideration of HK\$29.8 million. The completion date of the acquisition will be on or before 31 October 2018.

The Property is intended to be held by the Group for its own use as office.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

The change in the capital structure of the Group from 1 April 2018 to 30 June 2018 are set out in page 4 of this report.

Cash position

As at 30 June 2018, the cash and cash equivalents of the Group amounted to approximately HK\$103.1 million (as at 30 June 2017: approximately HK\$83.1 million), which were mainly denominated in Hong Kong dollar, representing an increase of approximately 24.1% as compared to that as at 30 June 2017. The increase was mainly due to the net proceeds from the placing of 440,560,000 new ordinary Shares on 5 January 2018 at the placing price of HK\$0.105 per Share to not less than six independent placees (the "**Placing**").



MANAGEMENT DISCUSSION AND ANALYSIS

Borrowing

As at 30 June 2018, the total borrowings of the Group, all of which were denominated in Hong Kong dollars, amounted to approximately HK\$28.6 million (at 30 June 2017: approximately HK\$8.9 million) and outstanding committed banking facilities amounted to approximately HK\$6.7 million (as at 30 June 2017: approximately HK\$7.8 million). Among the borrowings,

1. approximately HK\$6.7 million (at 30 June 2017: approximately HK\$7.8 million) was derived from the bank borrowings which bears interest rate at 4.00% as at 30 June 2018 (at 30 June 2017: from 4.25% to 5.25% per annum);
2. approximately HK\$21.0 million was derived from unlisted corporate bonds issued by the Company in August 2017 and September 2017 which bears a fixed interest rate at 8.00% per annum (at 30 June 2017: Nil); and
3. approximately HK\$0.9 million was derived from obligations under a finance lease of the Group's motor vehicle (at 30 June 2017: HK\$1.1 million) at 1.99% per annum.

Pledge of assets

As at 30 June 2018, a deposit of HK\$7.5 million was pledged by the Group to a bank as security for due performance under a licence agreement for our restaurants operating at HKIA (at 30 June 2017: HK\$7.5 million).

Gearing ratio

As at 30 June 2018, the gearing ratio of the Group was approximately 20.9% (at 30 June 2017: approximately 9.2%). The increase was mainly attributable to the issuance of unlisted corporate bonds in August 2017 and September 2017 and was offset by the repayment of bank borrowings during the period. The gearing ratio is calculated based on the total borrowings, which include bank borrowings, unlisted corporate bonds and obligation under a finance lease, divided by the equity attributable to owners of the Company at the end of the respective period.

COMMITMENTS

As at 30 June 2018, the Group had outstanding capital commitments of approximately HK\$28.3 million in relation to acquisition of the Property (as at 30 June 2017: HK\$0.9 million).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no significant contingent liabilities (at 30 June 2017: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group operates in Hong Kong with majority of the transactions being settled in HK\$, United States dollar (“**USD**”) and Renminbi (“**RMB**”). 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 HK\$ against the USD as long as this currency is pegged.



MANAGEMENT DISCUSSION AND ANALYSIS

Since the transactions and monetary assets denominated in RMB are minimal for the three-month periods ended 30 June 2017 and 2018, the Group considers that there was no significant foreign exchange risk in respect of RMB for both periods.

The Group did not have any foreign exchange contracts, interest or currency swaps, other financial derivatives or any financial instruments for hedging purposes during the three-month period ended 30 June 2018.

PROSPECT

In addition to the section headed with “Business Review” in page 11 of this report, which sets out the details of the recent development of the Group and our strategic objective to continue to strengthen our position in operating restaurants at the HKIA and diversify our business in the urban area of Hong Kong, we have been strategically looking for opportunities to introduce popular restaurant brands to both the HKIA and the urban area of Hong Kong through franchising or other cooperative arrangements. Therefore, we obtained the franchise of certain famous brands, “Du Hsiao Yueh Restaurant (度小月)”, “Flamingo Bloom” and “Hanlin Tea Room/Hut (翰林茶館/棧)”. We are optimistic about the growth prospects for developing restaurants under these brands in Hong Kong and would bring positive returns to the Group in the long run.

Apart from the Hong Kong market, we intend to progressively expand into the PRC casual dining market. Benefiting from our long history of development in the catering industry in Hong Kong and the experience and expertise which we have accumulated throughout the years, and the ongoing growth of casual dining market in the PRC, we plan to pursue a growth strategy by opening restaurants in the coming two years in first-tier cities such as Guangzhou and Shanghai in the PRC where we consider having strong market potential. We will keep monitoring and searching for market opportunities and will conduct in-depth research 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 Shareholders.

CORPORATE GOVERNANCE PRACTICE

During the period from 1 April 2018 to 30 June 2018, 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 deviation from Code Provision A.2.1.

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 is the Chairman and the Chief Executive Officer of the Company. Considering that Mr. Wong 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 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.



MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed RaffAello Capital Limited (“**RaffAello**”) to be the compliance adviser. As informed by RaffAello, neither RaffAello nor any of its directors or employees or associates, has or may have, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) during the three-month period ended 30 June 2018, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules, except for the compliance adviser agreement entered into between the Company and RaffAello dated 16 December 2015.

COMPETING BUSINESS

The Directors are not aware of any business or interest of the Directors or the controlling Shareholders or any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the three-month period ended 30 June 2018.

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 three-month period ended 30 June 2018.

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 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in 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

Name of Director	Capacity	Number of ordinary shares interested	Percentage of shareholding
Mr. Wong Man Wai	Interest of controlled corporation	1,500,000,000	56.7%

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 Man Wai. Therefore, Mr. Wong Man Wai is deemed to be interested in all the Shares held by Fortune Round Limited for the purpose of the SFO. Mr. Wong Man Wai is the sole director of Fortune Round Limited.



MANAGEMENT DISCUSSION AND ANALYSIS

Long positions in underlying shares

Name of Director	Capacity	Number of ordinary shares interested	Percentage of shareholding
Ms. Lam Wai Kwan	Beneficial owner	20,000,000	0.76%
Mr. Chan Chak To Raymond	Beneficial owner	20,000,000	0.76%

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.

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 30 June 2018, 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2018 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 interested	Percentage of shareholding
Fortune Round Limited	Beneficial owner (note 1)	1,500,000,000	56.7%
Ms. Li Wing Yin	Interest of spouse (note 2)	1,500,000,000	56.7%

Notes:

1. 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.
2. Ms. Li Wing Yin is the spouse of Mr. Wong Man Wai. She is deemed to be interested in all the Shares in which Mr. Wong Man Wai is interested under the SFO.

Save as disclosed above, as at 30 June 2018, 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.



MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

The Company 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. At the date of this report, no option has been exercised.

No share option has been granted during the three-month period ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. The Company periodically issues notices to its Directors reminding them to the general prohibition on dealing in the Company’s listed securities during the blackout periods before the publication of announcements of financial results of the Group. Having made specific enquiry with all the Directors, all Directors confirmed that they have complied with the required standard of dealing and the Company’s code of conduct regarding securities transactions by the Directors throughout the three-month period ended 30 June 2018.

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. Cai Chun Fai and Mr. Ng Sai Cheong. Mr. Ma Yiu Ho Peter is the chairman of the audit committee. The audit committee has reviewed this Quarterly Financial Statements of the Group for the three-month period ended 30 June 2018.

By order of the Board

Royal Catering Group Holdings Company Limited

Wong Man Wai

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 10 August 2018

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. Cai Chun Fai and Mr. Ng Sai Cheong.