

# 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

Third Quarterly Report

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Royal Catering Group Holdings Company Limited

Third Quarterly Report 2018

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## FINANCIAL HIGHLIGHTS

- The Group recorded an unaudited revenue of approximately HK\$72.2 million for the nine-month period ended 31 December 2018 (nine-month period ended 31 December 2017: approximately HK\$77.8 million), representing a decrease of approximately 7.2% 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\$9.8 million for the nine-month period ended 31 December 2018 (nine-month period ended 31 December 2017: unaudited profit and total comprehensive income attributable to owners of the Company of approximately HK\$2.0 million).
- The basic and diluted loss per share attributable to owners of the Company for the nine-month period ended 31 December 2018 was HK0.37 cents (nine-month period ended 31 December 2017: the basic and diluted earnings per share attributable to owners of the Company of HK0.09 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 and nine-month period ended 31 December 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 and nine-month period ended 31 December 2018

	Notes	Three-month period ended 31 December		Nine-month period ended 31 December	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Revenue</b>	4	<b>21,655</b>	26,227	<b>72,187</b>	77,773
Cost of inventories sold		<b>(4,137)</b>	(4,702)	<b>(13,108)</b>	(14,355)
<b>Gross profit</b>		<b>17,518</b>	21,525	<b>59,079</b>	63,418
Other revenue and other income		<b>918</b>	1,225	<b>3,228</b>	3,006
Staff costs		<b>(7,481)</b>	(8,214)	<b>(23,156)</b>	(24,657)
Depreciation of property, plant and equipment		<b>(1,403)</b>	(1,569)	<b>(3,972)</b>	(4,096)
Amortisation on intangible assets		<b>(301)</b>	(109)	<b>(898)</b>	(238)
Property rentals and related expenses		<b>(5,501)</b>	(7,482)	<b>(19,078)</b>	(24,693)
Fuel and utility expenses		<b>(811)</b>	(845)	<b>(2,575)</b>	(2,608)
Unrealised loss arising from change in fair value of financial assets at fair value through profit or loss		<b>(2,415)</b>	(367)	<b>(3,669)</b>	(1,106)
Administrative expenses		<b>(6,227)</b>	(4,722)	<b>(16,007)</b>	(12,267)
<b>Loss from operations</b>		<b>(5,703)</b>	(558)	<b>(7,048)</b>	(3,241)
Gain on bargain purchase		<b>–</b>	–	<b>–</b>	3,119
Share of result of an associate		<b>(34)</b>	1,661	<b>(624)</b>	5,391
Finance costs	5	<b>(137)</b>	(502)	<b>(1,029)</b>	(761)
<b>(Loss)/profit before tax</b>	6	<b>(5,874)</b>	601	<b>(8,701)</b>	4,508
Income tax expenses	7	<b>(175)</b>	(538)	<b>(1,027)</b>	(1,555)
<b>(Loss)/profit and total comprehensive (loss)/income for the period</b>		<b>(6,049)</b>	63	<b>(9,728)</b>	2,953
<b>(Loss)/profit and total comprehensive (loss)/income for the period attributable to:</b>					
Owners of the Company		<b>(5,303)</b>	(642)	<b>(9,810)</b>	1,997
Non-controlling interests		<b>(746)</b>	705	<b>82</b>	956
		<b>(6,049)</b>	63	<b>(9,728)</b>	2,953
<b>(Loss)/earnings per share attributable to owners of the Company</b>					
Basic and diluted (loss)/earnings per share (HK cents)	8	<b>(0.20)</b>	(0.03)	<b>(0.37)</b>	0.09

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 31 December 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 and total comprehensive income for the period	–	–	–	1,997	1,997	956	2,953
Acquisition of a subsidiary	–	–	–	–	–	5,679	5,679
At 31 December 2017 (Unaudited)	22,028	72,957	2,750	(240)	97,495	6,635	104,130
At 1 April 2018 (Audited)	<b>26,434</b>	<b>113,760</b>	<b>2,750</b>	<b>(2,660)</b>	<b>140,284</b>	<b>7,291</b>	<b>147,575</b>
Loss and total comprehensive loss for the period	–	–	–	(9,810)	(9,810)	82	(9,728)
Capital injection into subsidiaries by non-controlling interests	–	–	–	–	–	3,600	3,600
<b>At 31 December 2018 (Unaudited)</b>	<b>26,434</b>	<b>113,760</b>	<b>2,750</b>	<b>(12,470)</b>	<b>130,474</b>	<b>10,973</b>	<b>141,447</b>

Note: Share option reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at grant date. The amount for each period is determined by spreading the fair value of the share options over the relevant vesting period (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share option reserve.



# 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 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, 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 nine-month period ended 31 December 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 nine-month period ended 31 December 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 Quarterly Financial Statements for the nine-month period ended 31 December 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. SEGMENT INFORMATION

The Group is principally engaged in the provision of food catering services through a chain of casual dining food catering services restaurants. Information reported to the Group's management for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no additional reportable segment and geographical information have been presented.

## 4. REVENUE

	Three-month period ended		Nine-month period ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Restaurants operations	21,432	25,151	70,638	74,026
Sales of food	31	903	1,039	3,282
Franchise fee income	192	173	510	465
	<b>21,655</b>	26,227	<b>72,187</b>	77,773

## 5. FINANCE COSTS

	Three-month period ended		Nine-month period ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on bank borrowings	128	67	295	162
Interest on unlisted corporate bonds	–	423	705	560
Interest on finance lease	9	12	29	39
	<b>137</b>	502	<b>1,029</b>	761

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 6. (LOSS)/PROFIT BEFORE TAX

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

	Three-month period ended		Nine-month period ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	<b>4,137</b>	4,702	<b>13,108</b>	14,355
Loss on written off of property, plant and equipment	<b>–</b>	–	<b>107</b>	–
Depreciation of property, plant and equipment	<b>1,403</b>	1,569	<b>3,972</b>	4,069
Amortisation on intangible assets	<b>301</b>	109	<b>898</b>	238
Lease payments under operating leases:				
– Minimum lease payments	<b>4,856</b>	6,471	<b>15,367</b>	20,256
– Contingent rents	<b>79</b>	289	<b>1,975</b>	2,315
	<b>4,935</b>	6,760	<b>17,342</b>	22,571
Employee benefit expenses (including directors' remuneration):				
– Salaries, allowance and benefits in kind	<b>7,184</b>	7,909	<b>22,278</b>	23,683
– Retirement benefit scheme contributions	<b>297</b>	305	<b>878</b>	974
	<b>7,481</b>	8,214	<b>23,156</b>	24,657
Unrealised loss arising from change in fair value of financial assets at fair value through profit or loss	<b>2,415</b>	367	<b>3,669</b>	1,106

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. INCOME TAX EXPENSES

	Three-month period ended		Nine-month period ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
— Hong Kong Profits Tax	193	556	1,081	1,594
Deferred tax:				
— Tax credit	(18)	(18)	(54)	(39)
	175	538	1,027	1,555

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

## 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		Nine-month period ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/earnings per share				
— (Loss)/earnings for the purpose of basic and diluted earnings per share	(5,303)	(642)	(9,810)	1,997



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three-month period ended		Nine-month period ended	
	31 December		31 December	
	2018	2017	2018	2017
	'000	'000	'000	'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Number of shares				
— Weighted average number of ordinary shares for the purpose of basic and dilute (loss)/earnings per share	<b>2,643,360</b>	2,202,800	<b>2,643,360</b>	2,202,800

The number of ordinary Shares for the purpose of calculating basic and diluted loss per Share for the three-month period and nine-month periods ended 31 December 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 and nine-month period ended 31 December 2017 and 2018, the conversion of the above potential dilutive Shares is not assumed in the calculation of diluted (loss)/earnings per Share.

### 9. DIVIDEND

No dividend has been paid or proposed by the Company for the nine-month period ended 31 December 2018 (for the nine-month period ended 31 December 2017: Nil).

### 10. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, no significant events have taken place within the Group.



# 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 31 December 2018, we were operating two restaurants under our self-owned brands, including “Chinese Kitchen (中國廚房)” and “Macao Harbour (阿瑪港澳門餐廳)” at the Hong Kong International Airport (the “**HKIA**”). During the nine-month period ended 31 December 2018, a restaurant at the HKIA under the brand “Tasty Congee & Noodle Wantun Shop (正斗)” was closed and the licenses for operating the restaurants under the brands “Taiwan Beef Noodle (台灣牛肉麵)” and “Nosh Café & Bar” and one takeaway kiosk under the brand “Coffee Express” at the HKIA expired (the “**Expired Restaurants**”). The Group had 100% interest in the restaurants under the brand “Taiwan Beef Noodle (台灣牛肉麵)” and “Nosh Café & Bar” and the takeaway kiosk under the brand “Coffee Express” 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. During the nine months ended 31 December 2018, a restaurant under the brand “Du Hsiao Yueh Restaurant (度小月)” commenced operations in Times Square, Causeway Bay in June 2018, our first restaurant under the brand “Flamingo Bloom” commenced operations in IFC, Central in July 2018 and our first two restaurants under the brand “Hanlin Tea Room/Hut (翰林茶館/棧)” commenced operations in Harbour City, Tsim Sha Tsui and Grand Plaza, Mong Kok in September 2018 and November 2018, respectively (the “**New Franchised Restaurants**”).

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 Asia.

## FINANCIAL REVIEW

### Revenue

The revenue of the Group decreased by approximately 7.2% from approximately HK\$77.8 million for the nine-month period ended 31 December 2017 to approximately HK\$72.2 million for the nine-month period ended 31 December 2018. The decrease in revenue was mainly attributable to the closure of business of Expired Restaurants, and the effect was partially offset by the commencement of business of the New Franchised Restaurants.

### 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 decreased by approximately 9.0% from approximately HK\$14.4 million for the nine-month period ended 31 December 2017 to approximately HK\$13.1 million for the nine-month period ended 31 December 2018. The decrease in cost of inventories sold was mainly attributable to the closure of business of Expired Restaurants, and the effect was partially offset by the commencement of business of the New Franchised Restaurants.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross profit and gross profit margin

The Group's gross profit, which is equal to revenue minus cost of inventories sold, for nine-month period ended 31 December 2018 was approximately HK\$59.1 million, representing a decrease of approximately 6.8% from approximately HK\$63.4 million for the nine-month period ended 31 December 2017. The decrease in gross profit was mainly attributed to the closure of business of Expired Restaurants as explained above.

The gross profit margin for the Group's restaurants operating at the HKIA were 81.1% and 80.7% for the nine-month period ended 31 December 2017 and 2018, respectively. The gross profit margin for the Group's restaurants operating in the urban area of Hong Kong were 82.3% and 82.7% for the nine-month period ended 31 December 2017 and 2018, respectively.

The relatively high and stable gross profit margin for the restaurants operating at the HKIA for the nine-month period ended 31 December 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.

The relatively high and stable of gross profit margin for the Group's restaurants operating in the urban area of Hong Kong for the nine-month period ended 31 December 2017 and 2018 was resulted from outsourcing its procurement function to a service provider with a more sophisticated inventory management control.

### Other revenue and other income

	For the nine-month period ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	588	327
Dividend income	2,002	1,434
Management fee income	158	306
Sundry income	99	27
Tips income	132	293
Net foreign exchange gain	249	619
Total	3,228	3,006



## MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue and other income primarily consist of interest income, dividend income, management fee income, tips income, net foreign exchange gain and sundry income. The other revenue and other income increased from approximately HK\$3.0 million for the nine-month period ended 31 December 2017 to approximately HK\$3.2 million for the nine-month period ended 31 December 2018, representing an increase of approximately 6.7%. The increase in other revenue and other income was mainly attributable to increment of interest income and dividend income during the period.

### **Staff costs**

Staff costs primarily consist of salaries, wages and allowances, pension costs and other employee benefits. The staff costs decreased from approximately HK\$24.7 million for the nine-month period ended 31 December 2017 to approximately HK\$23.2 million for the nine-month period ended 31 December 2018, representing a decrease of approximately 6.1%. The decrease in staff costs was mainly attributable to the closure of business of Expired Restaurants, and the effect was partially offset by (i) the commencement of business of the New Franchised Restaurants; and (ii) general increase in salary level of employees during the period.

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 per employee 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.

### **Employees and remuneration policies**

As at 31 December 2018, the Group had 133 employees (at 31 December 2017: 177 employees). The decrease in number of staff during the period was mainly attributable to the closure of business of Expired Restaurants. Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee.

### **Depreciation**

The depreciation was stable at approximately HK\$4.1 million and HK\$4.0 million for the nine-month period ended 31 December 2017 and 2018, respectively.

### **Property rentals and related expenses**

The property rentals and related expenses for the nine-month period ended 31 December 2018 amounted to approximately HK\$19.1 million, representing a decrease of approximately 22.7% from approximately HK\$24.7 million for the nine-month period ended 31 December 2017. The decrease in property rentals and related expenses was mainly due to the closure of business of Expired Restaurants, and the effect was partially offset by the commencement of business of the New Franchised Restaurants during the period.



## MANAGEMENT DISCUSSION AND ANALYSIS

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 nine-month periods ended 31 December 2017 and 2018, the total fuel and utility expenses remained largely the same at approximately HK\$2.6 million.

### **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\$12.3 million for the nine-month period ended 31 December 2017 to approximately HK\$16.0 million for the nine-month period ended 31 December 2018, representing an increase of approximately 30.1%, which was mainly due to renovation reinstatement works in relation to the closure of business of Expired Restaurants and the commencement of business of the New Franchised Restaurants during the period.

### **Income tax expenses**

The income tax expenses for the nine-month period ended 31 December 2018 amounted to approximately HK\$1.0 million, representing a decrease of approximately 37.5% as compared with that of approximately HK\$1.6 million for the nine-month period ended 31 December 2017. The decrease in income tax expenses was mainly due to the closure of business of Expired Restaurants, and the effect was partially offset by the commencement of business of the New Franchised Restaurants.

### **Finance costs**

The Group's finance costs increased from approximately HK\$0.8 million for the nine-month period ended 31 December 2017 to approximately HK\$1.0 million for the nine-month period ended 31 December 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. The two unlisted corporate bonds of principal amounts of HK\$11 million and HK\$10 million respectively were fully redeemed on 16 August 2018 and 17 September 2018, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (Loss)/profit

The Group recorded a loss of approximately HK\$9.7 million for the nine-month period ended 31 December 2018 as compared to a profit of approximately HK\$3.0 million for the corresponding period in 2017. Reference is made to the announcements of the Company dated 7 August 2018 and 9 October 2018, the loss was mainly due to (i) the increase of 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) closure of the other Expired Restaurants; (iv) increase in administrative expenses mainly resulting from renovation reinstatement works in relation to the closure of the Expired Restaurants; and (v) the absence of gain on bargain purchase, which was incurred for the nine months ended 31 December 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\$41.3 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 announcements of the Company dated 9 April 2018 and 9 October 2018 (the “**Announcements**”) and the actual use of proceeds from the Listing Date to 31 December 2018 are set forth below:

	<b>Intended Use of Proceeds</b> HK\$'000	Actual use of proceeds from the Listing Date to 31 December 2018 HK\$'000
Opening new restaurants in Hong Kong	10,400	–
Opening new restaurants under the franchised brands “翰林茶館” and “翰林茶棧” in the urban area of Hong Kong	9,300	5,903
Opening new restaurants in the Asia	11,100	–
Renovation of restaurants and office	3,300	103
Marketing activities (including recruitment, advertisement and promotion activities) to promote brand awareness	2,300	1,380
Upgrade existing restaurant facilities and system	900	900
<b>Total</b>	<b>37,300</b>	<b>8,286</b>

The Directors will constantly evaluate the Group’s business objectives and will change or modify the plans against 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 nine-month period ended 31 December 2018.

## **SIGNIFICANT INVESTMENTS HELD**

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 approximately HK\$3.7 million for the nine-month period ended 31 December 2018 (for the nine-month period ended 31 December 2017: approximately HK\$1.1 million) due to unstable global capital market, the Group received dividends of approximately HK\$2.0 million (for the nine-month period ended 31 December 2017: approximately HK\$1.4 million). As at 31 December 2018, the Group's investments in funds amounted to approximately HK\$33.8 million (2017: approximately HK\$38.7 million).

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

Save for the above investments and the Group's interests in its subsidiaries and an associate, the Group did not hold any significant investments as at 31 December 2018.

## **LIQUIDITY AND FINANCIAL RESOURCES**

### **Capital structure**

There has been no material change in the capital structure of the Company for the nine months ended 31 December 2018.

### **Cash position**

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately HK\$42.9 million (as at 31 December 2017: approximately HK\$79.8 million), which were mainly denominated in Hong Kong dollar, representing a decrease of approximately 46.2% as compared to that as at 31 December 2017. The decrease was mainly resulted from the payment of consideration of HK\$29.8 million and stamp duty for the acquisition of a property as office situated at 12th Floor, Great Smart Tower, No. 230 Wan Chai Road, Hong Kong (the "**Property**").



# MANAGEMENT DISCUSSION AND ANALYSIS

## **Borrowing**

As at 31 December 2018, the total borrowings of the Group, all of which were denominated in Hong Kong dollars, amounted to approximately HK\$12.0 million (at 31 December 2017: approximately HK\$28.4 million) and outstanding committed banking facilities amounted to approximately HK\$11.3 million (as at 31 December 2017: approximately HK\$27.3 million). Among the borrowings,

1. approximately HK\$11.3 million (at 31 December 2017: approximately HK\$6.4 million) was derived from the bank borrowings which bears interest rate at 4.00% as at 31 December 2018 (at 31 December 2017: from 4.25% to 5.25% per annum); and
2. approximately HK\$0.7 million was derived from obligations under a finance lease of the Group's motor vehicle (at 31 December 2017: HK\$1.0 million) at 1.99% per annum.

We derived approximately HK\$21.0 million 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 during the period. The two unlisted corporate bonds at principal amounts of HK\$11 million and HK\$10 million respectively were fully redeemed on 16 August 2018 and 17 September 2018, respectively.

## **Pledge of assets**

As at 31 December 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 31 December 2017: HK\$7.5 million).

## **Gearing ratio**

As at 31 December 2018, the gearing ratio of the Group was approximately 9.2% (at 31 December 2017: approximately 29.1%). The decrease was mainly attributable to the redemption of two unlisted corporate bonds at principal amounts of HK\$11 million and HK\$10 million respectively 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 31 December 2018, the Group had outstanding capital commitments of approximately HK\$0.3 million in relation to design and marketing services (as at 31 December 2017: HK\$0.9 million).

## **CONTINGENT LIABILITIES**

As at 31 December 2018, the Group had no significant contingent liabilities (at 31 December 2017: Nil).



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

Since the transactions and monetary assets denominated in RMB are minimal for the nine-month periods ended 31 December 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 nine-month period ended 31 December 2018.

## PROSPECTS

Our strategic objective is to continue to strengthen our position in operating restaurants at the HKIA and diversify our business in the urban area of Hong Kong, and 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)”. During the nine months ended 31 December 2018, a restaurant under the brand “Du Hsiao Yueh Restaurant (度小月)” commenced operations in Times Square, Causeway Bay in June 2018, our first restaurant under the brand “Flamingo Bloom” commenced operations in IFC, Central in July 2018 and our first two restaurants under the brand “Hanlin Tea Room/Hut (翰林茶館/棧)” commenced operations in Harbour City, Tsim Sha Tsui and Grand Plaza, Mong Kok in September 2018 and November 2018, respectively. 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 Asia 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 Asia, we plan to pursue a growth strategy by opening restaurants in the coming years in the cities in Asia 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 Asia.

Further, we have completed the acquisition of the Property for a consideration of HK\$29.8 million in October 2018 for business development and expansion of the Group.

Looking ahead, the Group will endeavour to strengthen the development of its existing businesses and to provide steady return as well as growth prospects for the Shareholders.



# MANAGEMENT DISCUSSION AND ANALYSIS

## **CORPORATE GOVERNANCE PRACTICE**

During the period from 1 April 2018 to 31 December 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.

## **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 nine-month period ended 31 December 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 nine-month period ended 31 December 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 nine-month period ended 31 December 2018.



## 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 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.

#### 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.



# 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 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.

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

As at 31 December 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 in interested	Percentage of shareholding
Fortune Round Limited	Beneficial owner ( <i>note 1</i> )	1,500,000,000	56.7%
Ms. Li Wing Yin	Interest of spouse ( <i>note 2</i> )	1,500,000,000	56.7%

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 all the Shares in which Mr. Wong Man Wai is interested under the SFO.

Save as disclosed above, as at 31 December 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 at the exercise price of HK\$0.163 per Share under the Share Option Scheme. A nominal consideration of HK\$1.00 was received by the Company from each of the three grantees. As at the date of this report, 60,000,000 options had been granted under the Share Option Scheme and no option has been exercised.

The summary of the options granted under the Share Option Scheme that were still outstanding as at 31 December 2018 is as follows:

Name of the grantee	No. of share options outstanding as at 1 April 2018	No. of share options granted during the year ended 31 December 2018	No. of share options exercised during the year ended 31 December 2018	No. of share options adjusted during the year ended 31 December 2018	No. of share options cancelled during the year ended 31 December 2018	No. of share options lapsed during the year ended 31 December 2018	No. of share options outstanding as at 31 December 2018
Mr. Chan Chak To Raymond	20,000,000	-	-	-	-	-	20,000,000
Ms. Lam Wai Kwan	20,000,000	-	-	-	-	-	20,000,000
Employee (in aggregated)	20,000,000	-	-	-	-	-	20,000,000
Total:	60,000,000	-	-	-	-	-	60,000,000

No share option has been granted during the nine-month period ended 31 December 2018.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **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 nine-month period ended 31 December 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 report of the Group for the nine-month period ended 31 December 2018.

By order of the Board

**Royal Catering Group Holdings Company Limited**

**Wong Man Wai**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 12 February 2019

*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 (appointed on 9 August 2018).*