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ROYAL CATERING GROUP HOLDINGS COMPANY LIMITED

皇璽餐飲集團控股有限公司

(incorporated in Cayman Islands with limited liability)

(Stock Code: 8300)

PROFIT WARNING AND CHANGE IN USE OF PROCEEDS

This announcement is made by Royal Catering Group Holdings Company Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) and the Inside Information Provisions (as defined under the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

The board (the “**Board**”) of directors (the “**Directors**”) of the Company would like to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on the preliminary review by the Board of the unaudited consolidated management accounts of the Group for the year ended 31 March 2020 (“**FY2020**”), the Group expects to record an increase in loss attributable to the owners of the Company for FY2020 as compared to that for the year ended 31 March 2019 (“**FY2019**”). The Group’s loss attributable to the owners of the Company is expected to be not less than HK\$60.0 million for FY2020, as compared to a loss attributable to the owners of the Company of approximately HK\$17.4 million for FY2019.

Based on the information currently available, the Board considers that such expected increase in loss attributable to the owners of the Company for FY2020 as compared to FY2019 was mainly attributable to (i) a significant drop in revenue of the Group of approximately HK\$23.9 million, which was mainly due to the closure of the certain restaurants and negative impacts of the social unrest arising from anti-extradition bill protests (the “**Protests**”) in Hong Kong since June 2019 and the outbreak of COVID-19 pandemic (the “**Pandemic**”) since January 2020; (ii) one-off impairment loss recognised in respect of property, plant and equipment of approximately HK\$6.0 million; (iii) one-off impairment loss recognised in respect of intangible assets of approximately HK\$6.3 million; (iv) one-off impairment loss recognised in respect of right-of-use assets of approximately HK\$19.4 million; and (v) the increase in administrative expenses of approximately HK\$3.3 million.

The information in this announcement is only based on the information currently available and preliminary review of the unaudited consolidated management accounts of the Group for FY2020 by the management of the Company and is subject to adjustment. The unaudited consolidated management accounts of the Group for FY2020 have not yet been reviewed by the audit committee of the Company or reviewed and audited by the auditor of the Company. The actual annual results of the Group for FY2020 may be different from the information disclosed in this announcement. Shareholders and potential investors are advised to read carefully the Company's annual results announcement for FY2020, which is expected to be published on or around 30 June 2020.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

CHANGE IN USE OF PROCEEDS

References are made to (i) the prospectus of the Company dated 1 August 2016 (the “**Prospectus**”) in relation to the placing of 500,000,000 shares of the Company (the “**Shares**”) at the price of HK\$0.15 per Share (the “**IPO**”); (ii) the announcements of the Company dated 17 February 2017 and 13 March 2017 in relation to the placing of 202,800,000 Shares at the placing price of HK\$0.15 per Share (the “**First Placing**”); (iii) the announcements of the Company dated 13 December 2017, 28 December 2017, 29 December 2017 and 5 January 2018 in relation to 440,560,000 Shares at the placing price of HK\$0.105 per Share (the “**Second Placing**”); and (iv) the announcements of the Company dated 9 April 2018 and 9 October 2018 in relation to change in use of proceeds and business update (collectively, the “**Prospectus and Announcements**”).

With reference to the Prospectus and Announcements, (i) the net proceeds from the IPO of approximately HK\$41.3 million (the “**Net IPO Proceeds**”) was intended to be used for opening new restaurants in Hong Kong and Asia, renovation of restaurants and office, marketing activities and upgrading existing restaurant facilities and system; (ii) the net proceeds from the First Placing of approximately HK\$29.8 million (the “**Net First Placing Proceeds**”) was intended to be used for pursuing potential acquisition opportunities and as general working capital of the Group; and (iii) the net proceeds from the Second Placing of approximately HK\$45.2 million (the “**Net Second Placing Proceeds**”) was intended to be used for acquiring a property in the urban area of Hong Kong to operate a new restaurant by the Group and opening “*Du Hsiao Yueh (度小月)*” restaurants in Hong Kong.

The Group's financial performance and condition were affected by the Protests and the Pandemic during FY2020. Since the Protests began in June 2019, the consumers' sentiment became sluggish and the demand for dining and catering was affected as a result of the prolonged Protests across the territory. The financial performance of the Group was further worsened by the Pandemic. The Pandemic severely diminished the demand for dining and catering and in response to the Pandemic, the Hong Kong government imposed the social distancing and emergency health measures, after which the service capability of the restaurants operated by the Group was reduced and the number of customers visiting the Group's restaurants has significantly decreased. Under the combined effect brought by the Protests and the Pandemic, the Group's revenue and operating cash flows were worsened during FY2020. As at the date of this announcement, the Pandemic is not yet under control.

In view of the adverse impact of the Protests and Pandemic on the Group's business, the Board decided to take conservative and prudent business strategies in order to support daily business operations and to cope with the economic uncertainty in the near future. In order to better utilise the resources on hand, and taking into account of the continuous outbreak of the Pandemic, the possible revival of the Protests and the economic downturn, which is likely to be experienced in the coming financial year, as at the date of this announcement, the Board resolved to change the proposed use of the Net IPO Proceeds, the Net First Placing Proceeds and the Net Second Placing Proceeds in the following manner:

	Intended use of net proceeds as disclosed in the Prospectus and the Announcements <i>HK\$ million</i>	Utilised amount of net proceeds as at the date of this announcement <i>HK\$ million</i>	Unutilised amount of net proceeds as at the date of this announcement <i>HK\$ million</i>	Revised use of net proceeds <i>HK\$ million</i>
Net IPO Proceeds				
Opening new restaurants in Hong Kong	10.4	7.93	2.47	—
Opening new restaurants under franchised brands “翰林茶館” and “翰林茶棧” in the urban area of Hong Kong	9.30	5.90	3.40	—
Opening new restaurants in Asia	11.1	2.11	8.99	—
Renovation of restaurants and office	3.30	3.30	—	—
Marketing activities (including recruitment, advertisement and promotion activities) to promote brand awareness	2.30	2.30	—	—
Upgrade existing restaurant facilities and system	0.90	0.90	—	—
Staff costs in respect of restaurants' staff	—	—	—	13.05
Property rentals and related expenses	—	—	—	1.81
Subtotal:	37.30	22.44	14.86	14.86
Net First Placing Proceeds				
Pursuing potential acquisition opportunities	26.86	5.75	21.11	—
General working capital	2.98	2.98	—	—
Property rentals and related expenses	—	—	—	5.71
Other operating expenses of restaurants	—	—	—	15.40
Subtotal:	29.84	8.73	21.11	21.11

	Intended use of net proceeds as disclosed in the Prospectus and the Announcements <i>HK\$ million</i>	Utilised amount of net proceeds as at the date of this announcement <i>HK\$ million</i>	Unutilised amount of net proceeds as at the date of this announcement <i>HK\$ million</i>	Revised use of net proceeds <i>HK\$ million</i>
Net Second Placing Proceeds				
Acquiring a property in the urban area of Hong Kong to operate a new restaurant by the Group	37.50	—	37.50	37.50
Opening “Du Hsiao Yueh (度小月)” restaurants in Hong Kong	7.70	1.52	6.18	—
Other operating expenses of restaurants	—	—	—	6.18
Subtotal:	45.20	1.52	43.68	43.68
Total:	112.34	32.69	79.65	79.65

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

The Board has considered a basket of factors including the fact that (i) there is no sign that the Pandemic would be under control in the near future; (ii) it is probable that there would be a second wave of the Pandemic, after which the social distancing and the emergency health measures imposed by the government would be tightened again; (iii) the possible revival of the Protest; and (iv) the economic downturn to be experienced in Hong Kong, which upsets the consumers’ sentiment in the long run. In view of these uncertainties and the existing market conditions, the Group needs to adopt a more effective policy to maintain its existing business operations and cash flow liquidity. The Board has assessed a number of viable options to manage the Group’s cash flow liquidity, such as re-designating the Unutilised Net Proceeds (as defined below), taking out bank loans, or conducting share placements under general mandate. Having considered the costs that may be incurred in the above courses of action and the time requirements, the Board is of the view that it would be of the best interest to the Company and the Shareholders as a whole under the worsened financial condition of the Group to change the intended use of the unutilised Net IPO Proceeds, Net First Placing Proceeds and Net Second Placing Proceeds (the “**Unutilised Net Proceeds**”) by re-allocating approximately HK\$42.15 million for (i) staff costs in respect of restaurants’ staff; (ii) property rentals and related expenses; and (iii) other operating expenses of restaurants. The Board is further of the view that, alternative to re-allocating the Unutilised Net Proceeds, it would not be in the best interest of the Company to take out further banking facilities to support the business and operation of the Group as it would increase the finance cost in view of the worsened financial performance of the Group.

The Board believes that the re-allocation of the Unutilised Net Proceeds as disclosed above will enable a better utilisation of the Unutilised Net Proceeds as this will provide higher level of flexibility for the Group to manage its asset and liability against the current unstable business environment and is favourable to the Group's long term business development. The Board will continue to assess the impact of the Protests and the Pandemic to the operations of the Group.

The Board confirms that there is no material change in the business nature of the Group as set out in the Prospectus and considered that the proposed change in the proposed use of Unutilised Net Proceeds will not have any material adverse impact on the operations of the Group and is in the best interests of the Company and the Shareholders as a whole.

By order of the Board
Royal Catering Group Holdings Company Limited
Wong Man Wai
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 24 June 2020

As at the date of this announcement, 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.

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

This announcement will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.hk for at least seven days from the date of its posting. This announcement will also be published on the Company's website at www.hkrcg.com.