

# 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



THIRD QUARTERLY REPORT

2020

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

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## FINANCIAL HIGHLIGHTS

- The Group recorded an unaudited revenue of approximately HK\$33.0 million for the nine-month period ended 31 December 2020 (nine-month period ended 31 December 2019: approximately HK\$58.4 million), representing a decrease of approximately 43.5% 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\$1.2 million for the nine-month period ended 31 December 2020 (nine-month period ended 31 December 2019: unaudited loss and total comprehensive income attributable to owners of the Company of approximately HK\$21.6 million).
- The basic and diluted loss per share attributable to owners of the Company for the nine-month period ended 31 December 2020 was HK0.04 cents (nine-month period ended 31 December 2019: the basic and diluted loss per share attributable to owners of the Company of HK0.82 cents).
- The Board does not recommend the payment of an interim dividend for the nine-month period ended 31 December 2020.



The board (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three-month and nine-month period ended 31 December 2020, together with the unaudited comparative figures for the respective corresponding period in 2019 as follows:

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

For the three-month and nine-month period ended 31 December 2020

	Notes	Three-month period ended 31 December		Nine-month period ended 31 December	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Revenue</b>	4	<b>11,136</b>	14,305	<b>33,039</b>	58,351
Cost of inventories sold		<b>(2,309)</b>	(2,821)	<b>(6,899)</b>	(11,573)
<b>Gross profit</b>		<b>8,827</b>	11,484	<b>26,140</b>	46,778
Other revenue and other income		<b>1,914</b>	184	<b>9,865</b>	2,273
Staff costs		<b>(5,129)</b>	(8,554)	<b>(15,627)</b>	(27,601)
Depreciation expenses		<b>(1,072)</b>	(7,258)	<b>(3,229)</b>	(19,481)
Amortisation on intangible assets		<b>(35)</b>	(301)	<b>(104)</b>	(898)
Property rentals and related expenses		<b>(399)</b>	(739)	<b>(1,213)</b>	(2,248)
Fuel and utility expenses		<b>(436)</b>	(637)	<b>(1,247)</b>	(2,245)
Unrealised loss arising from change in fair value of financial assets at fair value through profit or loss		–	–	–	(53)
Administrative expenses		<b>(3,441)</b>	(4,730)	<b>(14,007)</b>	(16,231)
<b>Profit/(loss) from operations</b>		<b>229</b>	(10,551)	<b>578</b>	(19,706)
Share of result of an associate		<b>(10)</b>	(35)	<b>(46)</b>	(63)
Finance costs		<b>(194)</b>	(504)	<b>(726)</b>	(1,567)
<b>Profit/(loss) before tax</b>	6	<b>25</b>	(11,090)	<b>(194)</b>	(21,336)
Income tax credit/(expenses)	7	<b>77</b>	(192)	<b>(371)</b>	(1,247)
<b>Profit/(loss) and total comprehensive income/ (loss) for the period</b>		<b>102</b>	(11,282)	<b>(565)</b>	(22,583)
<b>Profit/(loss) and total comprehensive income/ (loss) for the period attributable to:</b>					
Owners of the Company		<b>(23)</b>	(11,116)	<b>(1,155)</b>	(21,602)
Non-controlling interests		<b>125</b>	(166)	<b>590</b>	(981)
		<b>102</b>	(11,282)	<b>(565)</b>	(22,583)
<b>Loss per share attributable to owner of the Company</b>					
Basic and diluted loss per share (HK cents)	8	–	(0.42)	<b>(0.04)</b>	(0.82)

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 31 December 2020

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Share option reserve	Accumulated losses	Sub-total		
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2019 (Audited)	26,434	113,760	2,750	(21,037)	121,907	11,855	133,762
Application of HKFRS 16	-	-	-	227	227	152	379
At 1 April 2019 (as restated)	26,434	113,760	2,750	(20,810)	122,134	12,007	134,141
Dividend paid from a subsidiary	-	-	-	-	-	(2,000)	(2,000)
Loss and total comprehensive income for the period	-	-	-	(21,602)	(21,602)	(981)	(22,583)
Acquisition of additional interest in subsidiaries	-	-	-	1,302	1,302	(7,052)	(5,750)
At 31 December 2019 (Unaudited)	26,434	113,760	2,750	(41,110)	101,834	1,974	103,808
At 1 April 2020 (Audited)	26,434	113,760	2,750	(85,211)	57,733	367	58,100
Loss and total comprehensive loss for the period	-	-	-	(1,155)	(1,155)	590	(565)
<b>At 31 December 2020 (Unaudited)</b>	<b>26,434</b>	<b>113,760</b>	<b>2,750</b>	<b>(86,366)</b>	<b>56,578</b>	<b>957</b>	<b>57,535</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 the Cayman Islands on 19 August 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) by way of placing (the “**Listing**”) with effect from 8 August 2016. The address of the Company’s registered office is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The principal place of business of the Company is Unit 1201, 12th Floor, Great Smart Tower, 230 Wan Chai Road, Wan Chai, 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 of the Company (the “**Director**”).

The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in 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 2020 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 amendment to HKFRSs issued by the HKICPA, which are effective for the annual periods beginning on or after 1 April 2020, the principal accounting policies used in the Quarterly Financial Statements for the nine-month period ended 31 December 2020 are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2020.

### Application of new and amendments to HKFRSs

In the current period, the Group has applied all new and amendment to HKFRSs issued by the HKICPA that are effective for the Group’s financial year beginning on or after 1 April 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendment to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the new and amendment to 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 Quarterly Financial Statements for the nine-month period ended 31 December 2020 have not been audited by the Group’s auditors but have been reviewed by the Company’s audit committee.

## 3. SEGMENT INFORMATION

The Group is principally engaged in the provision of catering services through a chain of casual dining food catering services restaurants. Information reported to the Group’s management for the purpose of resources 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.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 4. REVENUE

	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Type of products and services:</b>				
Restaurants operations	11,136	14,293	33,039	58,071
Sales of food	–	12	–	65
Franchise fee income	–	–	–	215
	<b>11,136</b>	<b>14,305</b>	<b>33,039</b>	<b>58,351</b>

All of the Group's revenue is derived in Hong Kong.

	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Timing of revenue recognition:</b>				
At a point in time	11,136	14,305	33,039	58,136
Over time	–	–	–	215
	<b>11,136</b>	<b>14,305</b>	<b>33,039</b>	<b>58,351</b>

#### Transaction price allocated to the remaining performance obligation for contracts with customers

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its revenue such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts as all contract works have an original expected duration of one year or less.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**5. FINANCE COSTS**

	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on bank borrowings	-	44	11	204
Interest on lease liabilities	194	460	715	1,363
	<b>194</b>	504	<b>726</b>	1,567

**6. PROFIT/(LOSS) BEFORE TAX**

Loss before tax is arrived at after charging:

	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cost of inventories sold	2,309	2,821	6,899	11,573
Depreciation of property, plant and equipment	302	2,179	905	6,014
Depreciation of right-of-use assets	770	5,079	2,324	13,467
Amortisation on intangible assets	35	301	104	898
Lease payments under operating leases in respect of land and buildings	-	-	-	-
Employee benefit expenses (including directors' remuneration):				
— Salaries, allowance and benefits in kind	4,946	8,325	15,072	26,697
— Retirement benefit scheme contributions	183	229	555	904
	<b>5,129</b>	8,554	<b>15,627</b>	27,601


**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**7. INCOME TAX (CREDIT)/EXPENSES**

	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current tax:				
— Hong Kong Profits Tax	<b>(59)</b>	210	<b>425</b>	1,301
Deferred tax:				
— Tax credit	<b>(18)</b>	(18)	<b>(54)</b>	(54)
	<b>(77)</b>	192	<b>371</b>	1,247

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for both periods.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**8. LOSS PER SHARE**

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

	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Loss</b>				
— Loss for the purpose of basic and diluted loss per shares	<b>(23)</b>	(11,116)	<b>(1,155)</b>	(21,602)
	Three-month period ended 31 December		Nine-month period ended 31 December	
	2020 '000 (Unaudited)	2019 '000 (Unaudited)	2020 '000 (Unaudited)	2019 '000 (Unaudited)
<b>Number of shares</b>				
— Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>2,643,360</b>	2,643,360	<b>2,643,360</b>	2,643,360

The calculation of basic loss per share for the three-month and nine-month periods ended 31 December 2019 and 2020 was based on the loss for the three-month and nine-month period attributable to owners of the Company and the weighted average number of ordinary shares.

The computation of diluted loss per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for both periods.

**9. DIVIDEND**

No dividend has been paid or declared by the Company for the nine-month period ended 31 December 2020 (for the nine-month period ended 31 December 2019: Nil).

 **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****10. MATERIAL RELATED PARTY TRANSACTIONS**

Save as disclosed elsewhere in the Quarterly Financial Statement, the Group had no other material transactions with related parties during the period.

The Group has entered into the master agreement dated 31 December 2018 and the supplemental agreement dated 30 September 2019 with Tensel Investment Limited (“**Tensel**”) pursuant to which the transactions under the master agreement and the supplemental agreement constituted continuing connected transactions under Chapter 20 of the GEM Listing Rules. Details of the master agreement and the supplemental agreement are set out in the announcements of the Company dated 31 December 2018 and 2 October 2019.

Upon the completion of the acquisitions of 30% of issued share capital of DHY from Tao Heung Seafood and 40%, 40% and 40% of issued share capital of Sky Grand, Forever Drinks and Bright Up from Charm Sky on 1 October 2019, Tensel was no longer a connected person of the Company and the master agreement and the supplemental agreement no longer constituted continuing connected transactions of the Company. Further details are set out in the announcement of the Company dated 2 October 2019.

**11. EVENTS AFTER THE REPORTING PERIOD**

The COVID-19 outbreak and the recent government anti-pandemic measures has brought about additional uncertainties in the Group’s operating environment and has impacted the Group’s operations and financial position. The Group has been closely monitoring the impact of the developments on the Group’s businesses and will review existing contingency measures. The Group’s existing contingency measures include, but is not limited to:

- (i) application for any new round of anti-epidemic fund launched by the Hong Kong Special Administrative Region Government to obtain financial support;
- (ii) minimising expenditures and negotiating lower restaurants rentals; and
- (iii) revisiting the operational performance of each restaurant and adjusting our future restaurants expansion plan.

Since the development of the COVID-19 remains uncertain, it is not practicable to estimate the full financial effect that the COVID-19 outbreak may have had on the Group’s operations.

## 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 both at the HKIA and in the urban area of Hong Kong. As at 31 December 2020, we had six restaurants in operation including “Chinese Kitchen (中國廚房)” which was temporarily closed from 10 February 2020.

During the nine-month periods ended 31 December 2019 and 2020, we have been operating the following restaurants:

Brand name	Location	Self-owned/ franchised brand	Operations during the nine-month period ended 31 December		Proportion of ownership interest of the restaurants held by the Group as at 31 December	
			2020	2019	2020	2019
Chinese Kitchen (中國廚房)	HKIA	Self-owned	✓ (Note 1)	✓	100%	100%
Macao Harbour (阿瑪港澳門餐廳)	HKIA	Self-owned	-	✓ (Note 2)	-	100%
大呷台灣	Central	Self-owned	✓	✓	100%	100%
Du Hsiao Yueh Restaurant (度小月)	Harbour City, Tsim Sha Tsui	Franchised	✓	✓	90%	90%
Du Hsiao Yueh Restaurant (度小月)	Times Square, Causeway Bay	Franchised	✓	✓	90%	90%
Du Hsiao Yueh Restaurant (度小月)	V Walk, Nam Cheong	Franchised	✓	90%	90%	90%
Flamingo Bloom	IFC, Central	Franchised	-	✓ (Note 3)	-	100%
Flamingo Bloom	Stanley Plaza, Stanley	Franchised	-	✓ (Note 4)	-	100%
Hanlin Tea Room/Hut (翰林茶館/棧)	Harbour City, Tsim Sha Tsui	Franchised	✓	✓	100%	100%
Hanlin Tea Room/Hut (翰林茶館/棧)	Grand Plaza, Mong Kok	Franchised	-	✓ (Note 5)	-	100%

## Notes:

1. “Chinese Kitchen (中國廚房)” at the HKIA was temporarily closed from 10 February 2020 until further notice of reopening, further details of which are set out in the Company’s announcement dated 7 February 2020.
2. “Macao Harbour (阿瑪港澳門餐廳)” at the HKIA was closed in October 2019.
3. “Flamingo Bloom” at IFC, Central was closed in November 2019.
4. “Flamingo Bloom” at Stanley Plaza, Stanley was commenced of business in April 2019 and was closed in February 2020.
5. “Hanlin Tea Room/Hut (翰林茶館/棧)” at Grand Plaza, Mong Kok was closed in January 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's operations, financial performance and condition were affected by the outbreak of the COVID-19 (the "Pandemic") during the nine-month period ended 31 December 2020. Since June 2019, consumers' sentiment became sluggish and the demand for dining and catering was affected in the midst of widespread social movements 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 certain anti-pandemic measures and consumers generally preferred to stay home, avoid dining out and maintain social distancing. Accordingly, the service capability of the restaurants operated by the Group was reduced and the number of customers visiting the Group's restaurants has decreased. As a result, the Group's revenue and operating cash flows worsened during the nine-month period ended 31 December 2020. As at the date of this quarterly report, the development of the Pandemic remains uncertain. In response to the uncertainty in the Hong Kong economy and in particular the catering industry, the Group will take conservative and prudent business strategies in order to support daily business operations and to cope with the economic uncertainty in the near future, as well as identifying and exploring other business opportunities to achieve stable return.

As disclosed in the Company's announcement dated 10 September 2020, the Group has obtained a money lenders licence in Hong Kong under the Money Lenders Ordinance (Chapter 163 of Laws of Hong Kong) on 10 September 2020 for a period of 12 months til 10 September 2021. In view of the uncertainty in the Hong Kong economy, the Group may carry out the money lending business, which will be funded by the Group's internal resources, if the Group sees fit. During the nine-month period ended 31 December 2020, the Group has not yet commenced the money lending business.

The casual dining food catering services will continue to be the core business of the Group.

### FINANCIAL REVIEW

#### Revenue

The revenue of the Group decreased by approximately 43.5% from approximately HK\$58.4 million for the nine-month period ended 31 December 2019 to approximately HK\$33.0 million for the nine-month period ended 31 December 2020. The decrease in revenue was mainly attributable to the negative impacts of the Pandemic to our existing 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 40.5% from approximately HK\$11.6 million for the nine-month period ended 31 December 2019 to approximately HK\$6.9 million for the nine-month period ended 31 December 2020. The decrease in cost of inventories sold was mainly attributable to the decrease in revenue during the period.

#### Gross profit and gross profit margin

The Group's gross profit, which is equal to revenue minus cost of inventories sold, for the nine-month period ended 31 December 2020 was approximately HK\$26.1 million, representing a decrease of approximately 44.2% from approximately HK\$46.8 million for the nine-month period ended 31 December 2019. The decrease in gross profit was mainly attributable to the decrease in revenue during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit margin for the Group's restaurants were 80.1% and 79.1% for the nine-month periods ended 31 December 2019 and 2020, respectively.

The relatively high and stable gross profit margin for the restaurants operating for the nine-month periods ended 31 December 2019 and 2020 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.

### Other revenue and other income

	Nine-month periods ended	
	31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	7	312
Dividend income	–	405
Sundry income	379	208
Tips income	–	71
Net foreign exchange gain	–	62
Gain on the disposal of the trademarks	–	1,215
Government subsidies	5,208	–
Rental concession	4,271	–
<b>Total</b>	<b>9,865</b>	2,273

Other revenue and other income primarily consist of interest income, sundry income, government subsidies and rental concession. The other revenue and other income of the Group increased by approximately 330.4% from approximately HK\$2.3 million for the nine-month period ended 31 December 2019 to approximately HK\$9.9 million for the nine-month period ended 31 December 2020. The increase in other revenue and other income was mainly attributable to the government subsidies and rental concession for the nine-month period ended 31 December 2020.

### Staff costs and employees

Staff costs primarily consist of salaries, wages and allowances, pension costs and other employee benefits. The staff costs of the Group decreased by approximately 43.5% from approximately HK\$27.6 million for the nine-month period ended 31 December 2019 to approximately HK\$15.6 million for the nine-month period ended 31 December 2020. As at 31 December 2020, the Group had 85 employees (as at 31 December 2019: 110 employees). The decrease in staff costs and number of employees was mainly due to decrease in revenue and number of operating restaurants during the nine-month period ended 31 December 2020 comparing to the same period of 2019, which was mainly because of the negative impacts of the Pandemic.



## MANAGEMENT DISCUSSION AND ANALYSIS

Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee. 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 after the Pandemic.

In addition to remuneration, the Group has adopted the Share Option Scheme (as defined below) and may grant options under the Share Option Scheme (as defined below) to reward its employees, the Directors and other selected participants for their contributions to the Group. The Group also provide various types of trainings to our employees, including (i) inhouse continuous professional development seminars; and (ii) safety training programme to enhance safety awareness.

### Depreciation

Our depreciation expenses mainly included the depreciation of right-of-use assets, building, leasehold improvements and catering and other equipment and amounted to approximately HK\$3.2 million for the nine-month period ended 31 December 2020, representing a decrease of approximately 83.6% from approximately HK\$19.5 million for the nine-month period ended 31 December 2019. The decrease in depreciation was mainly attributable to the impairment loss recognised in respect of property, plant and equipment for the year ended 31 March 2020 and the drop in number of operating restaurants during the nine-month period ended 31 December 2020 comparing to the same period of 2019, which was mainly because of the negative impacts of the Pandemic.

### Property rentals and related expenses

The property rentals and related expenses for the nine-month period ended 31 December 2020 amounted to approximately HK\$1.2 million, representing a decrease of approximately 45.5% from approximately HK\$2.2 million for the nine-month period ended 31 December 2019. The decrease in property rentals and related expenses was mainly due to the drop in number of operating restaurants during the nine-month period ended 31 December 2020 comparing to the same period of 2019, which was mainly because of the negative impacts of the Pandemic.

### Fuel and utility expenses

Fuel and utility expenses primarily consist of fuel expenses, electricity expenses and water supplies of the Group. The fuel and utility expenses of the Group decreased by approximately 45.5% from approximately HK\$2.2 million for the nine-month period ended 31 December 2019 to approximately HK\$1.2 million for the nine-month period ended 31 December 2020. The decrease in fuel and utility expenses was mainly attributable to the decrease in revenue mainly because of the negative impacts of the Pandemic.

### 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 decreased from approximately HK\$16.2 million for the nine-month period ended 31 December 2019 to approximately HK\$14.0 million for the nine-month period ended 31 December 2020, representing a decrease of approximately 13.6%, which was mainly due to the decrease in certain administration items, including travelling expenses, transportation and donation during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Income tax expenses

The income tax expenses for the nine-month period ended 31 December 2020 amounted to approximately HK\$0.4 million, representing a decrease of approximately 66.7% as compared with that of approximately HK\$1.2 million for the nine-month period ended 31 December 2019. The decrease in income tax expenses was mainly due to the decrease in the taxable profit from certain of our restaurants during the period.

## Finance costs

The Group's finance costs decrease from approximately HK\$1.6 million for the nine-month period ended 31 December 2019 to approximately HK\$0.7 million for the nine-month period ended 31 December 2020. The decrease in finance costs was mainly due to the decrease in bank borrowings and lease liabilities during the period.

## Loss

The Group recorded a loss of approximately HK\$0.6 million for the nine-month period ended 31 December 2020 as compared to a loss of approximately HK\$22.6 million for the corresponding period in 2019. The decrease in loss was mainly due to the government subsidies granted from Hong Kong government and rental concession during the period. The effect was partially offset by significant drop in revenue of the Group, which is mainly due to the drop in number of operating restaurants and negative impacts of the Pandemic during the period.

## Use of unutilised 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 was set out in the prospectus of the Company dated 1 August 2016 (the "Prospectus") and has been subsequently amended as summarised in the announcements of the Company dated 9 April 2018, 9 October 2018 and 24 June 2020 (the "Announcements"). The amount of unutilised proceeds from the Listing for the intended use of proceeds as at 30 June 2020 and actual use of proceeds from the Listing from 1 July 2020 to 31 December 2020 are set forth below:

<b>Intended use</b>	<b>Amount of unutilized proceeds from the Listing as at 30 June 2020 HK\$'000</b>	<b>Actual use of proceeds from 1 July to 31 December 2020 HK\$'000</b>
Staff costs in respect of restaurants' staff	12,797	6,135
Property rentals and related expenses	1,613	1,613
<b>Total</b>	<b>14,410</b>	<b>7,748</b>

For further details in relation to use of net proceeds from the Listing, please refer to the Prospectus and the Announcements. The Group plans to utilise the unutilised proceeds from the Listing during the year ending 31 March 2021. All the unutilised balances have been placed in licensed banks in Hong Kong.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Use of unutilised proceeds from issue of Shares

Apart from the net proceeds from the Listing, the Company raised funds from the following issue of shares of the Company (“**Shares**”):

- On 13 March 2017, the Company placed an aggregate of 202,800,000 new ordinary Shares to not less than six placees, who were independent third parties at the placing price of HK\$0.15 per share (the “**First Placing**”). The net proceeds from the First Placing, after deducting the placing agent commission and other expenses incurred for the First Placing, amounted to approximately HK\$29.84 million. The net price per First Placing Share was approximately HK\$0.147 and the closing price on the date of the First Placing agreement was HK\$0.121 per Share.
- On 5 January 2018, the Company placed 440,560,000 new ordinary Shares to not less than six placees, who were independent third parties at the placing price of HK\$0.105 per share (the “**Second Placing**”). The net proceeds from the Second Placing, after deducting the placing agent commission and other expenses incurred for the Second Placing, amounted to approximately HK\$45.2 million. The net price per Second Placing Share was approximately HK\$0.103 and the closing price on the date of the Second Placing agreement was HK\$0.101 per Share.

As disclosed in the Company’s announcement dated 24 June 2020, the intended use of unutilised proceeds from the First Placing and the Second Placing (the “**Placings Proceeds**”) was adjusted. The amount of unutilised Placing Proceeds for the intended use as at 30 June 2020 and the actual use of the Placing Proceeds from 1 July 2020 to 31 December 2020 are set forth below:

<b>Intended use</b>	<b>Amount of unutilized proceeds from the Placing as at 30 June 2020 HK\$'000</b>	<b>Actual use of proceeds from 1 July to 31 December 2020 HK\$'000</b>
Acquiring a property in the urban area of Hong Kong to operate a new restaurant by the Group	37,500	–
Property rentals and related expenses	5,710	4,335
Other operating expenses of restaurants	21,580	5,300
<b>Total</b>	<b>64,790</b>	<b>9,635</b>

The Company intends to utilise the unutilised Placing Proceeds as soon as practicable by 31 March 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

There was no material acquisition or disposal of subsidiaries, associates or joint ventures for the nine-month period ended 31 December 2020.

## SIGNIFICANT INVESTMENTS HELD

During the nine-month period ended 31 December 2020 and as at 31 December 2020, the Group did not hold any significant investments.

## LIQUIDITY AND FINANCIAL RESOURCES

### Capital structure

There has been no material change in the capital structure of the Company since 31 March 2020.

### Cash position

As at 31 December 2020, the cash and cash equivalents of the Group amounted to approximately HK\$32.0 million (as at 31 December 2019: approximately HK\$49.5 million), which were mainly denominated in Hong Kong dollar, representing a decrease of approximately 35.4% as compared to that as at 31 December 2019. The decrease was mainly resulted from (i) repayment of bank borrowings and (ii) supporting the Group's daily business operations during the period under the impact of the social movements during late 2019 and the Pandemic.

### Borrowing

As at 31 December 2020, the total borrowings of the Group, all of which were denominated in Hong Kong dollars, amounted to approximately HK\$13.4 million (as at 31 December 2019: approximately HK\$34.3 million) and no outstanding committed banking facilities (as at 31 December 2019: approximately HK\$3.8 million), further details of which are set out below:

1. bank borrowings of approximately HK\$3.9 million, which bore the interest rate at 4.13% per annum, were repaid before 30 September 2020 (as at 31 December 2019 : approximately HK\$ 3.9 million); and
2. approximately HK\$13.4 million was derived from lease liabilities of the Group's properties and motor vehicles (as at 31 December 2019: HK\$30.4 million), which had interest rate ranging from 1.99% to 5.19% per annum (as at 31 December 2019: ranging from 1.99% to 5.19% per annum). The decrease was mainly attributable to the drop in number of operating restaurants during the nine-month period ended 31 December 2020 comparing to the same period of 2019, resulting in decrease in lease liabilities arising from rental of operating restaurants.

### Pledge of assets

As at 31 December 2020, the carrying amounts of motor vehicles of approximately HK\$0.2 million was pledged (as at 31 December 2019: approximately HK\$0.4 million).



## MANAGEMENT DISCUSSION AND ANALYSIS

### Gearing ratio

As at 31 December 2020, the gearing ratio of the Group was approximately 23.7% (as at 31 December 2019: approximately 33.6%). The decrease was mainly attributable to the decrease in lease liabilities and bank borrowings during the period. The gearing ratio is calculated based on the total borrowings, which include bank borrowings and lease liabilities divided by the equity attributable to owners of the Company at the end of the respective period.

### COMMITMENTS

As at 31 December 2020, the Group had no outstanding capital commitments (at 31 December 2019: approximately HK\$2.6 million).

### CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no significant contingent liabilities (as at 31 December 2019: 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.

Since the transactions and monetary assets denominated in RMB are minimal for the nine-month periods ended 31 December 2019 and 2020, 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 for the nine-month periods ended 31 December 2019 and 2020.

### TREASURY POLICIES AND RISK MANAGEMENT

The main objective of the Group’s treasury policies is to seek capital appreciation with the surplus fund in short term and non-speculative in nature. The surplus fund is the fund after reserving the working capital requirement for the next 12-month period of the Group and excluding any unused proceeds from the listing and other fund raising activities by the Company including the Placing (as defined above). The investment activities of the Group shall be undertaken by the Investment Committee. Details of the Investment Committee is set out in the section “Corporate Governance Report” of 2020 annual report dated 30 June 2020.

As at 31 December 2020, the Group’s credit risk is primarily attributable to trade receivables, deposits, other receivables and cash and cash equivalents.

As at 31 December 2019 and 2020, the Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PRINCIPAL RISKS AND UNCERTAINTIES

The following are the principal risks and uncertainties faced by the Group, which may materially and adversely affect its business, financial condition or results of operations:

1. The Group's revenue derived from restaurants in Hong Kong may experience fluctuations from period to period due to seasonality and other factors.
2. All of the Group's revenue was derived from the restaurants in urban area in Hong Kong during the period under review, therefore the Group's operation may be affected by any future development in urban area of Hong Kong.
3. During the period under review, the Group generated all of our revenue in Hong Kong. If Hong Kong experiences any adverse economic condition due to events beyond our control, such as natural disasters, contagious disease outbreaks, terrorist attacks, a local economic downturn, mass civil disobedience movements or if the local authorities place additional restrictions or burdens on us or on our industry in general, our overall business and results of operations may be materially and adversely affected. Recently, the Group's revenue decreased due to (i) the outbreak of the Pandemic; and (ii) the recent social unrest in Hong Kong arising from the widespread social movements across the territory.

Cost of inventories sold, staff costs and property rentals and related expenses contributed the majority of the Group's operating cost. The following factors are uncertain and may affect the cost control measures of our Group:

1. The Group's business depends on reliable sources of large quantities of food ingredients such as vegetable and meat. The price of food ingredients may continue to rise or fluctuate.
2. Minimum wage requirements in Hong Kong was raised from HK\$34.5 per hour to HK\$37.5 per hour with effect from 1 May 2019, and may further increase and affect our staff costs in the future.
3. As at 31 December 2020, the Group licensed or leased all the properties for its restaurants operating at the HKIA and in the urban area of Hong Kong. Therefore, the Group is exposed to risks relating to the commercial real estate rental market, including unpredictable and potentially high occupancy costs.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Saved as disclosed in this report, the Group did not have other plans for material investments and capital assets at 31 December 2020.

## 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

However, due to the adverse impact of the internal and external environment such as economic recession and the Pandemic, we 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 view of these uncertainties and the existing market conditions, we will focus on maintaining sufficient general working capital to support the daily business operation of the Group, and also will carefully look at the business trends as well to determine if there is a strong entrepreneurial environment for us to lean on. We shall thus remain conservative and prudent towards its profitability in the coming months and will continue to manage the Group's expenditure and keep monitoring and searching for market opportunities for our expansion plan in order to improve financial performance.

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

### CORPORATE GOVERNANCE PRACTICE

The shares of the Company (the “**Shares**”) have been successfully listed on the GEM of the Stock Exchange on 8 August 2016 (the “**Listing Date**”). The Board recognized that the transparency and accountability are important to a listed company. Therefore, the Company is committed to maintaining high standards of corporate government in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with the CG Code for the nine-month period ended 31 December 2020, except for the deviations of Code Provisions A.2.1.

### CHAIRMAN AND CHIEF EXECUTIVE

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

### COMPETING BUSINESS

Save as disclosed in the Prospectus and this report, 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 2020.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the period under review.

# 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 2020, 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.

### 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%



## MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above and so far as is known to the Directors, as at 31 December 2020, 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 2020 and so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests and short positions in the Shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

#### Long positions in the Shares

Name of shareholders	Capacity	Number of ordinary shares in interested	Percentage of shareholding
Fortune Round Limited	Beneficial owner (note 1)	1,500,000,000	56.7%
Ms. Li Wing Yin	Interest of spouse (note 2)	1,500,000,000	56.7%
Keenfull Investments Limited	Beneficial owner (note 3)	317,280,000	12.0%
Mr. Li Chi Keung	Interest of controlled corporation (note 3)	317,280,000	12.0%
Ms. Wong Hoi Ping	Interest of spouse (note 4)	317,280,000	12.0%

#### 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.
- Keenfull Investments Limited, a company incorporated in the British Virgin Islands, is wholly owned by Mr. Li Chi Keung. Therefore, Mr. Li Chi Keung is deemed to be interested in the 317,280,000 Shares held by Keenfull Investments Limited for the purpose of the SFO. Mr. Li Chi Keung is the father of Ms. Li Wing Yin and accordingly, the father-in-law of Mr. Wong Man Wai, our controlling shareholder.
- Ms. Wong Hoi Ping is the spouse of Mr. Li Chi Keung. She is deemed to be interested in all the Shares in which Mr. Li Chi Keung is interested under the SFO.

## MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any interests or short positions of 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 to be kept under Section 336 of the SFO.

### 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.

The summary of the options granted under the Share Option Scheme that were still outstanding as at 31 December 2020 is as follows:

Name of the grantee	No. of share options outstanding as at 1 April 2020	No. of share options granted during the nine-month period ended 31 December 2020	No. of share options exercised during the nine-month period ended 31 December 2020	No. of share options adjusted during the nine-month period ended 31 December 2020	No. of share options cancelled during the nine-month period ended 31 December 2020	No. of share options lapsed during the nine-month period ended 31 December 2020	No. of share options outstanding as at 31 December 2020
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
	60,000,000	-	-	-	-	-	60,000,000

No share option has been granted during the nine-month period ended 31 December 2020.



## 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 2020.

### 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 the Quarterly Financial Statements of the Group for the nine-month period ended 31 December 2020.

By order of the Board

**Royal Catering Group Holdings Company Limited**

**Wong Man Wai**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 10 February 2021

*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.*