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婚宴專門店
Wedding Banquet Specialist

PALACE BANQUET HOLDINGS LIMITED

首豐控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1703)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

FINANCIAL HIGHLIGHTS

- Revenue was approximately HK\$848.6 million (2018: approximately HK\$770.1 million), representing an increase of approximately 10.2%.
- Gross profit margin was approximately 76.3% (2018: approximately 76.7%), representing a decrease of approximately 0.4%.
- Profit for the year was approximately HK\$37.7 million (2018: approximately HK\$53.0 million), representing a decrease of approximately 28.8%.
- Profit before listing expenses was approximately HK\$55.1 million (2018: approximately HK\$58.6 million), representing a decrease of approximately 5.9%.
- Basic earnings per share was approximately HK4.8 cents (2018: approximately HK7.1 cents).
- The Board does not recommend the payment of a final dividend for the year ended 31 March 2019.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Palace Banquet Holdings Limited (the “**Company**”, together with its subsidiaries collectively, the “**Group**”), hereby announces the consolidated results of the Group for the year ended 31 March 2019, together with comparative figures for the year ended 31 March 2018 as set out below. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Company’s prospectus dated 31 January 2019 (the “**Prospectus**”). The audit committee of the Company (the “**Audit Committee**”) has reviewed the consolidated annual results of the Group for the year ended 31 March 2019, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March	
		2019	2018
	Notes	HK\$’000	HK\$’000
Revenue	5	848,567	770,143
Other income	5	8,427	6,934
Other gain (losses), net	6	579	(1,278)
Cost of inventories consumed		(201,321)	(179,745)
Staff costs		(260,196)	(237,810)
Property rentals and related expenses		(191,167)	(164,567)
Utilities expenses		(45,461)	(40,139)
Depreciation of property, plant and equipment		(25,523)	(23,556)
Other expenses		(60,757)	(56,562)
Finance costs	7	(5,103)	(3,176)
Listing expenses		(17,342)	(5,591)
Profit before tax		50,703	64,653
Income tax expenses	9	(12,954)	(11,671)
Profit for the year attributable to owners of the Company	8	37,749	52,982
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Impairment losses on available-for-sale investments reclassified to profit or loss		–	189
Total comprehensive income for the year attributable to owners of the Company		37,749	53,171
Earnings per share			
– Basic and diluted (HK cents)	11	4.8	7.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
	<i>Notes</i>	2019	2018
		HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	12	85,433	70,474
Deposits paid for acquisition of property, plant and equipment		322	548
Deposit placed for a life insurance policy		15,079	14,769
Rental deposits and other receivables		44,151	51,174
Deferred tax assets		5,163	4,207
		150,148	141,172
Current assets			
Inventories		3,308	2,427
Trade and other receivables	13	41,176	30,952
Amounts due from shareholders		–	302
Tax recoverable		2,368	667
Bank balances and cash		242,560	109,151
		289,412	143,499
Current liabilities			
Trade and other payables	15	50,285	47,595
Contract liabilities		39,909	44,166
Bank borrowings	16	57,307	58,334
Tax payables		8,301	–
Provision for reinstatement costs		2,620	326
		158,422	150,421
Net current assets (liabilities)		130,990	(6,922)
		281,138	134,250
Non-current liabilities			
Deferred tax liabilities		288	918
Other payables		22,088	15,774
Contract liabilities		2,414	1,627
Provision for reinstatement costs		5,678	5,988
		30,468	24,307
		250,670	109,943
Capital and reserves			
Share capital	14	10,000	19,010
Reserves		240,670	90,933
Equity attributable to owners of the Company		250,670	109,943

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserves <i>HK\$'000</i> <i>(Note)</i>	Investments revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2017	17,010	–	(801)	(189)	58,752	74,772
Profit for the year	–	–	–	–	52,982	52,982
Impairment losses on available- for-sale investments reclassified to profit or loss	–	–	–	189	–	189
Total comprehensive income for the year	–	–	–	189	52,982	53,171
Share issued	2,000	–	–	–	–	2,000
Dividend recognised as distribution	–	–	–	–	(20,000)	(20,000)
At 31 March 2018 and 1 April 2018	19,010	–	(801)	–	91,734	109,943
Profit and total comprehensive income for the year	–	–	–	–	37,749	37,749
Dividend recognised as distribution	–	–	–	–	(14,000)	(14,000)
Share issued	1,000	–	–	–	–	1,000
Elimination of share capital on group reorganisation	(20,010)	–	20,010	–	–	–
Capitalisation issue	7,500	(7,500)	–	–	–	–
Share issued in connection with the global offering	2,500	122,500	–	–	–	125,000
Deemed contribution by a controlling shareholder	–	–	5,261	–	–	5,261
Transaction costs attributable to the global offering	–	(14,283)	–	–	–	(14,283)
At 31 March 2019	<u>10,000</u>	<u>100,717</u>	<u>24,470</u>	<u>–</u>	<u>115,483</u>	<u>250,670</u>

Note: Other reserves represented (i) the difference between the aggregate amount of issued and fully paid share capital of the subsidiaries acquired by the Company and the nominal amount of the shares issued by the Company in exchange for the entire equity interests in the subsidiaries as part of the group reorganisation, (ii) the difference between the consideration for the acquisition of a subsidiary and the fair value of the subsidiary acquired from the common shareholder of the Company and (iii) deemed contribution arising from the listing expenses borne by the controlling shareholder of the Company and waiver of the need to reinstate the premises for a restaurant rented from the controlling shareholder upon expiry of the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 7 June 2018 as an exempted company with limited liability under the laws of the Cayman Islands. The name of the Company was changed from First Gain Holdings Company Limited to The Palace Holdings Limited on 29 June 2018 and further changed to Palace Banquet Holdings Limited on 16 October 2018. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and the principal business of its subsidiaries is operation of Chinese restaurants in Hong Kong. The shares of the Company (the “**Shares**”) have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 15 February 2019 (the “**Listing Date**”).

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the Listing (the “**Reorganisation**”), the Company became the holding company of the companies now comprising the Group on 28 June 2018. Details of the Reorganisation are set out in the section headed “History, Reorganisation and Corporate Structure” of the Prospectus. As there was no change in the Controlling Shareholders, and the Group comprising the Company and its subsidiaries was directly and beneficially owned by the same ultimate shareholders before and after the Reorganisation, the Group comprising the Company and its subsidiaries is regarded as a continuing entity. Accordingly, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position and the consolidated statement of changes in equity of the Group have been prepared by applying the principles of merger accounting, as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the year ended 31 March 2019 and 2018, or since their respective dates of incorporation or establishment up to 31 March 2019 and 2018, whichever is the shorter period.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under historical cost basis except for available-for-sale investments that are measured in fair values and presented in Hong Kong Dollars (“**HK\$**”), which is also the functional currency of the Company and its subsidiaries.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the accountants’ report included in the Prospectus and the Group’s consolidated financial statements for the year ended 31 March 2019. The Group had not early adopted any new standards, amendments and interpretations (the “**New HKFRSs**”) that have been issued by the HKICPA but are not yet effective. The adoption of the New HKFRSs, except the impact on HKFRS 16 as described below, will have no material impact on the Group’s consolidated financial statements.

HKFRS 16 “Leases”

HKFRS 16, “Leases” provides new provisions for the accounting treatment of leases and will in the future all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard is not expected to apply until the Group’s financial year ending 31 March 2020, including the adjustment of prior years.

Impact

As at 31 March 2019, the Group had non-cancellable minimum operating lease commitments of approximately HK\$377,561,000, which are not reflected in the consolidated statement of financial position. Given that the total non-cancellable operating lease commitments account for approximately 200% of the total liabilities of the Group as at 31 March 2019, the Directors expect that the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s financial positions. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify as low value or short-term leases.

Based on modified retrospective approach, the Directors preliminary estimated that the right-of-use assets would increase by approximately HK\$420,000,000 and the lease liabilities would increase by approximately HK\$429,000,000 as at 1 April 2019, resulting in potential decrease in net assets, but no significant impact on the consolidated financial performance of the Group.

4. SEGMENT INFORMATION

The Group is operating Chinese full-service restaurants in Hong Kong. The Group’s revenue represents amounts received and receivable from the provision of catering services and sales of goods, net of discount and sales related taxes. Information reported to the executive Directors of the Group, being the chief operating decision maker, for the purpose of resources allocation and assessment of performance 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 operating segment information is presented.

The Group’s revenue from external customers and all of its non-current assets are located in Hong Kong based on geographical location of assets.

No revenue from individual external customer contributed over 10% of total revenue of the Group for the years ended 31 March 2019 and 2018.

5. REVENUE AND OTHER INCOME

	Year ended 31 March	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Chinese restaurant operations	848,567	770,143

	Year ended 31 March	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income		
Sponsorship income received from utility companies	2,993	2,792
Forfeiture of deposits received	2,436	1,449
Imputed interest income on non-current rental deposits	1,279	672
Sundry income	728	283
Interest income from deposit placed for a life insurance policy	530	515
Advertising income	415	225
Bank interest income	46	-
Interest income from available-for-sale investments	-	697
Rental income	-	208
Management fee income	-	93
	8,427	6,934

6. OTHER GAIN (LOSSES), NET

	Year ended 31 March	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment	1,337	-
Foreign exchange gain	-	116
Impairment losses on property, plant and equipment	(758)	(660)
Loss on disposal of available-for-sale investments	-	(734)
	579	(1,278)

7. FINANCE COSTS

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Imputed interests on rental deposits on initial recognition	2,793	1,094
Interest on bank borrowings	2,142	1,968
Unwinding of discounting on provision for reinstatement costs	168	114
	<u>5,103</u>	<u>3,176</u>

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Auditors' remuneration	1,280	703
Directors' remuneration		
– Other emoluments	6,701	10,361
– Contributions to retirement benefits scheme	142	146
	<u>6,843</u>	<u>10,507</u>
Salaries, allowances and other benefits (excluding directors' remuneration)	243,622	218,410
Contributions to retirement benefits scheme (excluding directors' remuneration)	9,731	8,893
	<u>253,353</u>	<u>227,303</u>
Total staff costs	<u>260,196</u>	<u>237,810</u>
Lease payments under operating leases in respect of land and buildings:		
– Minimum lease payments	144,313	122,591
– Contingent rents	1,325	1,653
	<u>145,638</u>	<u>124,244</u>

9. INCOME TAX EXPENSES

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Current income tax – Hong Kong:		
– Current year provision	14,244	11,057
– Under (over) provision in prior years	296	(18)
	<u>14,540</u>	<u>11,039</u>
Deferred tax	<u>(1,586)</u>	<u>632</u>
	<u>12,954</u>	<u>11,671</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. For the year assessment 2018/19, a two-tiered profits tax rates was introduced of which one subsidiary of the Group can elect 8.25% tax rate for its first assessable profits of HK\$2,000,000.

Pursuant to the rules and regulations of the Cayman Island and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Island and the BVI.

10. DIVIDENDS

Interim dividends of approximately HK\$14,000,000 (2018: HK\$20,000,000) were declared and distributed by the companies now comprising the Group to their then equity owners for the year ended 31 March 2019.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2019.

11. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Profit for the year attributable to owners of the Company	<u>37,749</u>	<u>52,982</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>Note</i>)	<u>781,506</u>	<u>750,000</u>
Basic earnings per share (HK cents)	<u>4.8</u>	<u>7.1</u>

Note: The weighted average number of shares in issue during the year ended 31 March 2019 represents 750,000,000 ordinary shares issued under the reorganisation and the capitalisation issue, as if such shares were issued on 1 April 2017 and the weighted average of 250,000,000 ordinary shares issued under the global offering.

The weighted average number of shares in issue during the year ended 31 March 2018 represented 750,000,000 ordinary shares issued under the reorganisation and the capitalisation issue, as if such shares were issued on 1 April 2017.

The details of the reorganisation and the capitalisation issue are disclosed in the section headed "Share Capital" in the Prospectus.

Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares outstanding during both years.

12. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 March 2019, the Group acquired items of property, plant and equipment amounting to approximately HK\$41,929,000 (2018: approximately HK\$29,571,000).

During the year ended 31 March 2019, as a result of the continuous decline in the performance of the certain subsidiaries, the Directors carried out a review of amount of value-in-use of the certain subsidiaries' property, plant and equipment. The calculation uses cash flow projections based on financial budgets approved by Directors and a pre-tax discount rate of 7.0% (2018: 7.0%). The review led to the recognition of impairment losses of approximately HK\$758,000 (2018: HK\$660,000), which have been recognised in consolidated statement of profit or loss and other comprehensive income.

13. TRADE RECEIVABLES

The Group's sales are mainly conducted in cash or by credit cards. The credit period granted by the Group to its customers ranges 0 to 30 days. As at 31 March 2019, approximately HK\$6,653,000 (2018: HK\$4,343,000) of trade receivables aged from 0 to 30 days based on invoice date and are neither past due nor impaired. These balances relate to a wide range of customers for whom there is no recent history of default.

No loss allowance of trade receivables was made as at 31 March 2019 and no provision for impairment of trade receivables was made as at 31 March 2018.

14. SHARE CAPITAL

The share capital as at 31 March 2019 represented the share capital of the Company.

	Number of shares	Share capital <i>HK\$</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
On the date of incorporation	38,000,000	380,000
Increase on authorised share capital	<u>4,962,000,000</u>	<u>49,620,000</u>
As at 31 March 2019	<u><u>5,000,000,000</u></u>	<u><u>50,000,000</u></u>
		<i>HK\$</i>
Issued and fully paid:		
On the date of incorporation	100	1
New ordinary Shares issued on 28 June 2018	9,900	99
Capitalisation issue of Shares	749,990,000	7,499,900
Share issued in relation to the global offering	<u>250,000,000</u>	<u>2,500,000</u>
As at 31 March 2019	<u><u>1,000,000,000</u></u>	<u><u>10,000,000</u></u>

15. TRADE PAYABLES

The following is an ageing analysis of trade payables presented based on the invoice date at the end of reporting period:

	Year ended 31 March	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	<u><u>16,185</u></u>	<u><u>16,565</u></u>

Payment terms granted by suppliers are generally within 50 days from the relevant purchases are made. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time-frame.

16. BANK BORROWINGS

Carrying amount repayable (based on schedule repayment dates set out in the loan agreements):

	As at 31 March	
	2019	2018
	HK\$'000	HK\$'000
Within one year	26,970	23,887
After one year but within two years	16,604	11,206
After two years but within five years	13,733	23,241
	<u>57,307</u>	<u>58,334</u>

Carrying amount repayable (shown under current liabilities) contain a repayment on demand clause:

	As at 31 March	
	2019	2018
	HK\$'000	HK\$'000
Within one year	<u>57,307</u>	<u>58,334</u>

As at 31 March 2019, the bank borrowings carried floating interest rate of 1 month HIBOR plus 1% to 2.5% per annum and Hong Kong dollars best lending rate minus 2% to 3% per annum.

As at 31 March 2019, the Group's bank borrowings and credit facilities available to the business cards are secured by the Group's deposit placed for a life insurance policy amounting to approximately HK\$15,079,000.

As at 31 March 2018, the Group's bank borrowings and credit facilities available to the business cards were secured by:

- i) the Group's deposit placed for a life insurance policy amounting to approximately HK\$14,769,000;
- ii) limited guarantees from and legal charges over properties owned by related companies; and
- iii) unlimited guarantee from a director of the Company.

The limited guarantees by related companies and unlimited guarantee from a director of the Company were released during the year ended 31 March 2019.

17. CAPITAL COMMITMENT

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>363</u>	<u>3,242</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a full-service restaurant group in Hong Kong offering Cantonese dining service and banquet service including wedding banquet service.

Industry Review

In Hong Kong, the household expenditure on food has been growing along with the increase in income. According to Frost & Sullivan, the per household expenditure on food of Hong Kong residents is expected to reach approximately HK\$121,490 in 2022, representing a CAGR of 3.9% from 2017 to 2022. Food prices vary based on overall demand and supply as well as other factors including environmental conditions such as climate and natural disasters, according to Frost & Sullivan. According to the annual report on the consumer price index 2018 published by the Census and Statistics Department (“C&SD”) of the Hong Kong Special Administrative Region, the composite consumer price index (“CPI”) for food, or Food Price Index (“FPI”), continued to rise from +2.2 for 2017 to +3.4 for 2018. As the CPI measures the weighted average of prices for food, we faced continued pressure on purchase price of food and beverages.

According to Frost & Sullivan, in terms of the market size of Hong Kong catering service industry, it is estimated that the total number of restaurants and Chinese restaurants in Hong Kong will exceed 35,000 and 23,000 in 2020, respectively. The market is expected to become more competitive. The catering industry is expected to keep a sustainable growth supported by the solid market demand. Consumers, especially tourists, are willing to choose restaurant groups with a well-established brand image and reputation.

In the following years, with further development in the catering industry, high level of standardisation, increasing willingness of dining out, the Hong Kong full-service restaurant market is expected to continue to maintain an upward trend. According to Frost & Sullivan, the total revenue of the full-service restaurant market in Hong Kong is expected to reach HK\$54.4 billion in 2022, representing a CAGR of 4.0% from 2017.

Furthermore, the industry continues to be affected by rising cost of major food ingredients. Food which has the largest contribution to the overall increase of the composite CPI during 2018 includes fresh vegetables (increased by 7.1%), salt-water fish (increased by 6.1%), fresh fruits (increased by 5.7%), other foods (increased by 4.7%) and other fresh sea products (increased by 11%).

As for the Hong Kong banquet market, as disclosed in the Prospectus, the market is forecasted to realise a CAGR of approximately 2.1% from 2017 to 2022 due to the increasing expenditure on banquets driven by growing consumption power of Hong Kong residents. According to the C&SD, the number of marriage had decreased from 51,800 in 2017 to 49,700 in 2018 (provisional). The crude marriage rate in 2017 was 7.0 per 1,000 people in population had dropped 6.7 per 1,000 people in population in 2018 (provisional). These demographic revealed the potential customer base for the Group’s wedding banquet has slightly declined. Despite the decline in the number of weddings in Hong Kong, the Hong Kong wedding banquet market is forecasted to be relatively

stable in the next few years due to higher average spending on wedding banquets. For instance, according to wedding ESD life, one of online platforms tailored for weddings, the average spending on wedding banquets in 2018 increased by 5% as compared to 2017. According to Frost and Sullivan, the per capita average spending on wedding banquets is expected to reach approximately HK\$175,000 in 2022, increasing about 8.7% from HK\$161,000 in 2017, which will be the major driver of the wedding banquet market. The per capita average spending on wedding banquets in Chinese full-service restaurants is expected to increase from HK\$159,000 in 2017 to HK\$172,000 in 2022, representing an increase of approximately 8.5%. In terms of cuisine type, Chinese cuisine banquets account for approximately 85% of the total number of wedding banquets over years.

Business Review

As at 31 March 2019, the Group operated 19 Chinese full-service restaurants under two brand names, namely, brands with the word(s) “煌府 (Palace)” and “Royal Courtyard (煌苑)”. The two restaurants under the brand “Royal Courtyard (煌苑)” possess outdoor garden for holding wedding ceremonies. During the year under review, three restaurants under the brand “煌府 (Palace)”, namely, Silvercord Restaurant, Cheung Sha Wan Restaurant and Tuen Mun Restaurant, commenced business in April 2018, October 2018 and January 2019, respectively. During the year under review, Chatham Restaurant (under the brand “煌府 (Palace)”) ceased operations at the end of February 2019 when its lease expired.

The following table sets out the movement of the number of restaurants we operated during the financial years indicated:

	Year ended 31 March	
	2019	2018
Number of restaurants at the beginning of the year	17	16
Number of newly opened restaurant(s) during the year	3	1
Number of closed restaurant during the year	(1)	–
	<hr/>	<hr/>
Number of restaurants at the end of the year	19	17
	<hr/> <hr/>	<hr/> <hr/>

As disclosed in “Business – Business Strategies” and “Future plans and use of proceeds” in the Prospectus, the Group will continue to open new restaurants in Hong Kong according to its expansion plan to maintain its competitiveness. According to expected timeframe of the expansions as disclosed in the Prospectus, the Group plans to open four restaurants for the year ending 31 March 2020, namely, in Kwun Tong, Sham Shui Po, Sha Tin and Wong Tai Sin. On 7 January 2019, the Group had entered into a tenancy agreement with a landlord, an Independent Third Party, for the Group’s new restaurant in Kwun Tong. The Kwun Tong restaurant is expected to be opened in July 2019. The exact location of the other three new restaurants depends on a number of factors, including availability of new commercial complex/shopping mall and timing of rental expiry. The Group is still searching for suitable premises for the other three new restaurants as at the date of this announcement.

As disclosed in the section headed “Summary – Recent Development and Material Adverse Change” in the Prospectus, the Group intends to cease the operation of its Causeway Bay Restaurant and Mong Kok Restaurant when their rental agreements have expired, after having assessing the cost and benefits on renewing tenancy agreements of these two restaurants. The lease for the Causeway Bay Restaurant has expired and the operations ceased in May 2019. As for the Mong Kok Restaurant, as the lease will expire at the end of June 2019, the operations has ceased and reinstatement work has begun as at the date of this announcement.

Subsequent to 31 March 2019, Tsim Sha Tsui East Restaurant and Sheung Shui Restaurant underwent renovation in April and May 2019, respectively. For the year ending 31 March 2020, the Group’s several other restaurants will undergo renovation. For details, please refer to “Business – Renovating our existing restaurants to maintain competitiveness” in the Prospectus. Approximately 60% of the costs for renovation will be funded by the net proceeds from the Global Offering and the balance will be funded by internal resources.

Financial Review

Revenue

The Group’s revenue increased by 10.2% from approximately HK\$770.1 million for the year ended 31 March 2018 to approximately HK\$848.6 million for the year ended 31 March 2019. Such increase in revenue was mainly due to the revenue of approximately HK\$86.0 million brought by the increase in number of new restaurants opened during the year, including the Silvercord Restaurant, Cheung Sha Wan Restaurant and Tuen Mun Restaurant, which were opened in April 2018, October 2018 and January 2019, respectively.

The increase in our revenue was partially set off by (i) the decrease in revenue of approximately HK\$3.7 million due to the closure of Chatham Restaurant in February 2019; and (ii) the aggregate revenue of the Group’s comparable restaurant sales for the year ended 31 March 2019 had moderately decreased by approximately 1.1% as compared to the year ended 31 March 2018 mainly due to the intensifying competition of the catering industry and decrease of wedding banquet customer base from the decrease in number of marriage in 2018.

The following table sets for the comparable restaurant sales, guest count and average spending per customer:

	Year ended 31 March	
	2019	2018
Number of comparable restaurants	15	15
Comparable restaurant sales (HK\$'000)	675,907	683,281
Guest count of comparable restaurant sales ('000)	5,115	5,128
Seat turnover rate of comparable restaurants (<i>Note</i>)	1.9	1.9
	<hr/>	<hr/>
Average spending per customer of comparable restaurants (HK\$)	132	133
	<hr/> <hr/>	<hr/> <hr/>

Note: Seat turnover rate equals guest count during a year divided by seating capacity of the relevant restaurants and further divided by the number of operating days in the relevant year. Seating capacities of our restaurants are based on the standard number of seats of each restaurant only and does not reflect occasional seating adjustment at peak hours/seasons or public holidays. Our Directors consider that such occasional adjustment should not affect the reliability of the seat turnover rate in the table above.

Cost of food and beverages

The Group's cost of food and beverages increased by approximately 12.0%, or approximately HK\$21.6 million, from approximately HK\$179.7 million for the year ended 31 March 2018 to approximately HK\$201.3 million for the year ended 31 March 2019. The increase was generally in line with the increase in revenue during the year ended 31 March 2019 and the increase in FPI. The cost of food and beverages as a percentage of revenue remained relatively stable at approximately 23.7% for the year ended 31 March 2019 (2018: 23.3%).

Gross Profit and Gross Profit Margin

The Group's gross profit (being revenue minus cost of materials consumed) amounted to approximately HK\$647.2 million for the year ended 31 March 2019, representing an increase of approximately 9.6% from approximately HK\$590.4 million for the year ended 31 March 2018, which was in line with the increase in revenue during the year. The Group's overall gross profit margin for the year ended 31 March 2018 (76.7%) and 2019 (76.3%) remained relatively stable.

Staff costs

The Group's staff costs increased by approximately 9.4%, or approximately HK\$22.4 million, from approximately HK\$237.8 million for the year ended 31 March 2018 to approximately HK\$260.2 million for the year ended 31 March 2019. Such increase was primarily due to the increase in salary and wages in order to cope with our business expansions during the year ended 31 March 2019. The staff costs as a percentage of revenue remained relatively stable at approximately 30.9% for the year ended 31 March 2018 as compared to approximately 30.7% for the year ended 31 March 2019.

Property rentals and related expenses

The Group's property rentals and related expenses increased by approximately 16.2%, or approximately HK\$26.6 million, from approximately HK\$164.6 million for the year ended 31 March 2018 to approximately HK\$191.2 million for the year ended 31 March 2019. Such increase was mainly attributable to an increase in the monthly rentals of the Group's leased properties upon renewal of the relevant leases and new properties leased for the expansion of the business. The property rentals and related expenses as a percentage of revenue slightly increased from approximately 21.4% for the year ended 31 March 2018 to approximately 22.5% for the year ended 31 March 2019.

Listing expenses

Listing expenses comprise professional fees and other expenses in relation to the Listing. The Group's listing expenses amounted to approximately HK\$17.3 million for the year ended 31 March 2019 as compared with approximately HK\$5.6 million for the year ended 31 March 2018 as the Listing took place during the year ended 31 March 2019.

Profit for the year

Profit for the year ended 31 March 2019 decreased by approximately 28.8%, or approximately HK\$15.3 million, from approximately HK\$53.0 million for the year ended 31 March 2018 to approximately HK\$37.7 million for the year ended 31 March 2019. Such decrease was mainly due to the combined effect of (i) increase in listing expenses incurred for the year ended 31 March 2019 by approximately HK\$11.8 million as compared with the year ended 31 March 2018; and (ii) the rate of increase in property rental and related expenses and cost of food and beverages which is higher than the rate of increase in revenue as discussed above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's objectives in managing capital are to safeguard its ability to continue as a going concern.

The capital structure of the Group consists of net debts, which includes bank borrowings, net of bank balances and cash and equity attributable to owners of the Group, comprising issued share capital and reserves.

The Directors review the capital structure of the Group periodically and may take different measures, including adjust the distribution amount to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt for maintaining the capital structure.

The Group's liquidity requirements primarily relate to the working capital needs (mainly for procurement of food and beverages from suppliers, staff costs, property rents and various operating expenses), providing catering and banquet services and working capital needs for loss making period, and the principal source of funds is mainly from working capital generated internally from the Group's operation, bank borrowings and the net proceeds received from the Listing.

As at 31 March 2019, the Group's cash and cash equivalents were approximately HK\$242.6 million (2018: HK\$109.2 million). As at 31 March 2019, the Group's total current assets and current liabilities were approximately HK\$289.4 million (2018: HK\$143.5 million) and approximately HK\$158.4 million (2018: HK\$150.4 million), while the current ratio of the Group was approximately 1.8 times (2018: approximately 1.0 times).

As at 31 March 2019, the Group's total borrowings amounted to approximately HK\$57.3 million (2018: approximately HK\$58.3 million). The borrowings were denominated in Hong Kong dollars and repayable on demand which carried floating interest rate of 1 month HIBOR plus 1% to 2.5% per annum and Hong Kong dollars best lending rate minus 2.0% to 3% per annum.

As at 31 March 2019, the Group's gearing ratio was approximately 22.9% (2018: 53.1%), which is calculated based on the interest-bearing debts divided by total equity attributable to owners of the Company as at 31 March 2019 and multiplied by 100%. The Directors, taking into account the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 31 March 2019 was reasonable. The gearing ratio for 2019 has decreased mainly attributable to the net proceeds from Listing and the enlarged capital base as compared to the gearing ratio for 2018.

CAPITAL EXPENDITURE

The capital expenditure during the year under review was primarily related to expenditures on additions and renovation of property, plant and equipment for the Group's new restaurants and maintenance of existing restaurants.

FOREIGN EXCHANGE EXPOSURE

Most of the transactions of the Group are denominated in Hong Kong dollar and the Group is not exposed to any significant foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any material contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 March 2019, the Group had approximately 880 employees. The Group offers competitive wages and other benefits to our restaurant employees, and make salary adjustments in response to the local labour market conditions. Our staff costs primarily consisted of salaries, allowances, and other benefits, contributions to retirement benefits scheme and Director's emoluments.

SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to the resolution passed on 25 January 2019 to give the eligible persons (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executives, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible participants of the share option scheme include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group; (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; (g) an associate of any of the persons referred to in paragraphs (a) to (c) above; and (h) any person involved in the business affairs of the Company whom our board determines to be appropriate to participate in the share option scheme.

No share options has been granted since the effective date of the share option scheme and there are no outstanding share options as at 31 March 2019.

CHARGES ON GROUP'S ASSETS

As at 31 March 2019, the deposit placed for a life insurance policy amounting to approximately HK\$15.1 million (2018: HK\$14.8 million) was pledged to secure the Group's bank borrowings.

SIGNIFICANT INVESTMENTS

As at 31 March 2019, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year under review, the Group had no material acquisition or disposal of subsidiaries, associates or joint ventures.

EVENTS AFTER THE REPORTING PERIOD

No significant events affecting the Company occurred since 1 April 2019 and up to the date of this announcement.

PROSPECTS

The Group's principal business objective is to further strengthen our position as one of the leading Chinese full-service restaurant group in Hong Kong's banquet market. To achieve such objective, the Group will continue to implement the following strategies:

- i) expanding our restaurant network and geographic coverage by opening more restaurants in Hong Kong;
- ii) renovating our existing restaurants to maintain competitiveness; and
- iii) promoting our brands and wedding banquet service.

The Board considers the business environment is competitive but remains positive on the prospects of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of at least 25% of the issued Shares from the Listing Date to the date of this announcement.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting underwriting fees and the listing expenses to be borne by the Group) (the “**Net Proceeds**”) was approximately HK\$92,734,000. As at 31 March 2019, the Company has utilised approximately HK\$4.5 million of the Net Proceeds for the purposes as set out in the Prospectus, representing approximately 4.8% of the Net Proceeds.

Use of Net Proceeds	Approximate percentage of the total amount	Actual Net Proceeds HK\$'000	Amount utilised as at 31 March 2019 HK\$'000	Unused Net Proceeds HK\$'000
Opening a total of eight restaurants	76.1%	70,557	–	70,557
Renovation of existing restaurants	14.1%	13,063	–	13,063
Promoting brands	5.0%	4,633	68	4,565
Additional working capital, strategic investment and other general corporate purposes	4.8%	4,481	4,429	52
	<u>100.0%</u>	<u>92,734</u>	<u>4,497</u>	<u>88,237</u>

The unused proceeds are placed into authorised financial institutions and/or licenced banks in Hong Kong. As at the date of this announcement, there was no change of the business plan from those disclosed in the Prospectus.

DIVIDENDS AND DIVIDEND POLICY

The Company has adopted a dividend policy and the declaration and recommendation of dividends are subject to the decision of the Board after considering the Company’s ability to pay dividends. The Board has complete discretion on whether to recommend and/or pay a dividend, subject to Shareholders’ approval, where applicable. The Directors will take into consideration, among other things, the financial results, operations, liquidity and capital requirements of the Group, general business conditions and strategies, future business plans of the Group and legal restrictions when determining whether or not to recommend and declare dividends. The Board will also review and reassess the dividend policy and its effectiveness on a regular basis or as required.

After assessing the cash flows, working capital required for low-season in the first-half of the financial year of the Group and short period from the Listing date, the Board does not recommend the payment of a final dividend for the financial year ended 31 March 2019 (2018: Nil).

As stated in the Prospectus, the Board will recommend dividends of approximately 30.0% of the profit and total comprehensive income after tax available for distribution of the Group to the Shareholders in the coming financial years.

ANNUAL GENERAL MEETING

The annual general meeting (the “**AGM**”) of the Company will be held on Friday, 20 September 2019. The notice of AGM, which constitutes part of the circular to the shareholders of the Company (the “**Shareholders**”), will be sent together with the annual report for the year ended 31 March 2019 in due course.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held at Level 13, The ONE, 100 Nathan Road, Tsim Sha Tsui, Kowloon at 11:00 a.m. on Friday, 20 September 2019. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 17 September 2019 to Friday, 20 September 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 16 September 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

For the period from the Listing Date to 31 March 2019, the Company has complied with all the code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with the Directors, all Directors have confirmed that they have complied with the required standard as set out in the Model Code for the period from the Listing Date to 31 March 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 March 2019.

AUDIT COMMITTEE

The Board has established the Audit Committee which comprises three independent non-executive Directors, namely Mr. Ng Kwok Tung (Chairman), Mr. Chan Koon Yuen Windaus and Mr. Yue Ming Wai Bonaventure. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group's policies and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee, together with the Board, has reviewed the consolidated annual results of the Group for the year ended 31 March 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.palace-rest.com.hk). The annual report will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in compliance with the Listing Rules in due course.

By order of the Board
Palace Banquet Holdings Limited
Chan Shou Ming
Chairman and Executive Director

Hong Kong, 14 June 2019

As at the date of this announcement, the executive Directors are Mr. Chan Shou Ming, Ms. Chen Xiao Ping and Ms. Qian Chunlin; and the independent non-executive Directors are Mr. Chan Koon Yuen Windaus, Mr. Ng Kwok Tung and Mr. Yue Ming Wai Bonaventure.