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婚宴專門店
Wedding Banquet Specialist

PALACE BANQUET HOLDINGS LIMITED

首灃控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1703)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

HIGHLIGHTS

- Revenue was approximately HK\$105.1 million (six months ended 30 September 2019: approximately HK\$332.2 million), representing a decrease of approximately 68.4%.
- Gross profit margin was at approximately 75.0% (six months ended 30 September 2019: approximately 75.7%), representing a decrease of approximately 0.7%.
- Loss and total comprehensive expenses for the period was approximately HK\$57.3 million (six months ended 30 September 2019: approximately HK\$42.5 million), representing an increase of approximately 34.9%.
- Loss per share was approximately HK5.7 cents (six months ended 30 September 2019: approximately HK4.3 cents), representing an increase of approximately 34.8%.
- The Board does not recommend the payment of any dividend for the six months ended 30 September 2020.

INTERIM 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 unaudited condensed consolidated results of the Group for the six months ended 30 September 2020, together with the comparative unaudited figures for the six months ended 30 September 2019 as set out below.

The audit committee of the Company (the “**Audit Committee**”) has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020 AND 2019

| | | For the six months ended | |
|--|-------|--------------------------|-----------------|
| | | 30 September | |
| | | 2020 | 2019 |
| | Notes | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Revenue | 3 | 105,090 | 332,188 |
| Other income | 6(a) | 29,273 | 4,313 |
| Other gains (losses), net | 6(b) | 3,133 | (48) |
| Cost of inventories consumed | | (26,321) | (80,700) |
| Staff costs | 6(c) | (43,992) | (127,052) |
| Property rentals and related expenses | | (26,503) | (34,295) |
| Utilities expenses | | (10,212) | (22,857) |
| Depreciation of property, plant and equipment | | (13,856) | (15,913) |
| Depreciation of right-of-use assets | | (43,557) | (57,229) |
| Other expenses | 6(d) | (22,551) | (33,214) |
| Finance costs | 4 | (7,703) | (11,073) |
| Loss before tax | | (57,199) | (45,880) |
| Income tax (expenses) credit | 5 | (96) | 3,410 |
| Loss and total comprehensive expenses for the period attributable to owners of the Company | 6 | <u>(57,295)</u> | <u>(42,470)</u> |
| Loss per share | | | |
| – Basic and diluted (HK cents) | 8 | <u>(5.73)</u> | <u>(4.25)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 September 2020 <i>HK\$'000</i> (Unaudited) | As at 31 March 2020 <i>HK\$'000</i> (Audited) |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 64,642 | 79,947 |
| Right-of-use assets | | 305,236 | 433,616 |
| Deposit paid | | 13,000 | – |
| Deposit placed for a life insurance policy | | 15,358 | 15,217 |
| Rental deposits | | 42,317 | 52,850 |
| Deferred tax assets | | 412 | 595 |
| | | 440,965 | 582,225 |
| Current assets | | | |
| Inventories | | 5,159 | 5,648 |
| Trade and other receivables | 10 | 26,584 | 30,476 |
| Tax recoverable | | 11,320 | 8,533 |
| Time deposits with maturity over three months | | – | 20,000 |
| Bank balances and cash | | 103,152 | 119,012 |
| | | 146,215 | 183,669 |
| Current liabilities | | | |
| Trade and other payables | 11 | 22,927 | 16,866 |
| Contract liabilities | | 55,023 | 51,826 |
| Bank borrowings | 12 | 36,213 | 44,786 |
| Lease liabilities | | 96,211 | 123,802 |
| Provision for reinstatement costs | | 1,749 | 1,258 |
| | | 212,123 | 238,538 |
| Net current liabilities | | (65,908) | (54,869) |
| | | 375,057 | 527,356 |

| | | As at 30 September 2020 <i>HK\$'000</i> (Unaudited) | As at 31 March 2020 <i>HK\$'000</i> (Audited) |
|---|-----------|---|---|
| Non-current liabilities | | | |
| Lease liabilities | | 282,942 | 376,982 |
| Deferred tax liabilities | | 97 | 352 |
| Other payables | | 1,743 | 3,023 |
| Contract liabilities | | 1,605 | 455 |
| Provision for reinstatement costs | | 7,666 | 8,245 |
| | | <u>294,053</u> | <u>389,057</u> |
| | | <u>81,004</u> | <u>138,299</u> |
| Capital and reserves | | | |
| Share capital | <i>13</i> | 10,000 | 10,000 |
| Reserves | | 71,004 | 128,299 |
| Equity attributable to owners of the Company | | <u>81,004</u> | <u>138,299</u> |

CONDENSED 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> | Retained profits (accumulated losses) <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|--|---|--------------------------|
| At 1 April 2019 (audited) | 10,000 | 100,717 | 24,470 | 115,483 | 250,670 |
| Loss and total comprehensive expenses for the period | - | - | - | (42,470) | (42,470) |
| At 30 September 2019 (unaudited) | 10,000 | 100,717 | 24,470 | 73,013 | 208,200 |
| At 1 April 2020 (audited) | 10,000 | 100,717 | 24,470 | 3,112 | 138,299 |
| Loss and total comprehensive expenses for the period | - | - | - | (57,295) | (57,295) |
| At 30 September 2020 (unaudited) | 10,000 | 100,717 | 24,470 | (54,183) | 81,004 |

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 end of the lease term.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)

The Company is an investment holding company and the principal business of its subsidiaries are operating Chinese restaurants in Hong Kong. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 September 2020 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and presented in Hong Kong Dollars (“**HK\$**”), which is the functional currency of the Group.

As at 30 September 2020, the Group has net current liabilities of approximately HK\$65,908,000 and incurred a net loss of approximately HK\$57,295,000. The condensed consolidated financial statements have been prepared on a going concern basis as the current liabilities consisted of contract liabilities from customers of approximately HK\$55,023,000, which are to be recognised as revenue upon rendering of the relevant banquet services in the next financial period; and amount of approximately HK\$6,895,000 representing bank borrowings being classified as current due to the existence of the repayment on demand clause (Note 12) in the loan agreements. The Directors believe that bank will probably not to exercise its discretionary rights to demand immediate repayment, the bank borrowing will be repaid in accordance with schedule.

Moreover, on 18 September 2020, the Company entered into a placing agreement with a placing agent, pursuant to which the Company conditionally agreed to place a total of up to 200,000,000 new shares at HK\$0.25 per share. On 6 October 2020, the Company successfully completed the placing of 150,000,000 new shares at HK\$0.25 per share. The net proceeds (after deducting placing commission and other related expenses and professional fees) amounted to approximately HK\$36,500,000, and will be used as general working capital and enhance the cash position of the Group.

The Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future and accordingly are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2020 except as described below.

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards (“HKFRSs”) and the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning 1 April 2020:

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

The application of the Amendments to References to the Conceptual Framework in HKFRS and the amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

| | Six months ended 30 September | |
|-------------------------------|--------------------------------------|-----------------|
| | 2020 | 2019 |
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| | (Unaudited) | (Unaudited) |
| Revenue | | |
| Chinese restaurant operations | 105,090 | 332,188 |

Note: Revenue derived from Chinese restaurant operations is from contract with customers and recognised at a point in time.

The transaction price allocated to the performance obligation that is unsatisfied, has not been disclosed, as substantially all of the Group’s contracts have a duration of one year or less.

The Group’s revenue represents amounts received and receivable from the provision of catering services and sales of goods, net of discount.

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.

All of the Group’s operations are located in Hong Kong. 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 six months ended 30 September 2020 and 2019.

4. FINANCE COSTS

| | Six months ended 30 September | |
|---|-------------------------------|-----------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest on lease liabilities | 7,127 | 10,136 |
| Interest on bank borrowings | 549 | 874 |
| Unwinding of discounting on provision for reinstatement costs | 27 | 63 |
| | <u>7,703</u> | <u>11,073</u> |

5. INCOME TAX EXPENSES (CREDIT)

| | Six months ended 30 September | |
|---------------------------------|-------------------------------|-----------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Current income tax – Hong Kong: | | |
| Current period provision | 168 | 362 |
| Deferred tax | (72) | (3,772) |
| | <u>96</u> | <u>(3,410)</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. For the year of assessments 2020/21 and 2019/20, 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 Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

(a) Other income

| | Six months ended 30 September | |
|---|-------------------------------|----------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Government subsidy (Note) | (22,919) | – |
| Forfeiture of deposits received | (1,893) | (768) |
| Sponsorship income received from utility companies | (1,440) | (1,509) |
| Sundry income | (946) | (422) |
| Waiver of the need of reinstatement obligation | (859) | – |
| Imputed interest income on non-current rental deposits | (566) | (729) |
| Bank interest income | (376) | (616) |
| Interest income from deposit placed for a life insurance policy | (274) | (269) |
| | <u>(29,273)</u> | <u>(4,313)</u> |

Note: The amount primarily represents a cash subsidy of HK\$22,919,000 (six months ended 30 September 2019: Nil) granted by The Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund for relieving financial burdens of the businesses.

(b) Other gains (losses), net

| | Six months ended 30 September | |
|---|-------------------------------|-------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Impairment loss on right-of-use assets | (15,058) | – |
| Impairment loss on property, plant and equipment | (3,979) | (34) |
| Loss on disposal of a subsidiary | (227) | – |
| Foreign exchange loss | (7) | (14) |
| Gain on disposal of property, plant and equipment | 119 | – |
| Gain on modification on leases | 22,285 | – |
| | <u>3,133</u> | <u>(48)</u> |

(c) Staff costs

| | Six months ended 30 September | |
|---|-------------------------------|----------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Directors' remuneration | | |
| – Other emoluments | 3,746 | 3,781 |
| – Contributions to retirement benefits scheme | 31 | 36 |
| | <u>3,777</u> | <u>3,817</u> |
| Salaries, allowances and other benefits (excluding Directors' remuneration) | 38,839 | 119,859 |
| Reversal of long service payment | (47) | (724) |
| Provision (reversal) of unutilised annual leave | 19 | (543) |
| Contributions to retirement benefits scheme (excluding Directors' remuneration) | 1,404 | 4,643 |
| | <u>40,215</u> | <u>123,235</u> |
| | <u>43,992</u> | <u>127,052</u> |

(d) Other expenses

| | Six months ended 30 September | |
|--|-------------------------------|---------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Cleaning fee | 3,861 | 9,985 |
| Handling charge | 3,449 | – |
| Legal and professional fees | 2,795 | 1,857 |
| Insurances | 2,053 | 2,775 |
| Repairs and maintenance | 1,925 | 4,084 |
| Security deposit forfeited for early termination of leases | 1,587 | – |
| Advertising and promotion | 1,320 | 2,350 |
| Consumables | 1,007 | 2,964 |
| Bank charges | 890 | 3,759 |
| Auditor's remuneration | 780 | 602 |
| Premium and handling charges on a life insurance policy | 126 | 104 |
| Others | 2,758 | 4,734 |
| | <u>22,551</u> | <u>33,214</u> |

7. DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2020 (30 September 2019: Nil).

8. LOSS PER SHARE

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

| | Six months ended 30 September | |
|--|-------------------------------|------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Loss for the period attributable to owners of the Company | <u>(57,295)</u> | <u>(42,470)</u> |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <u>1,000,000</u> | <u>1,000,000</u> |
| Basic loss per share (HK cents) | <u>5.73</u> | <u>4.25</u> |

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

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group acquired property, plant and equipment amounting to approximately HK\$5,102,000 (six months ended 30 September 2019: HK\$35,623,000).

Property, plant and equipment with a net carrying value of approximately HK\$1,881,000 was disposed of by the Group during the six months ended 30 September 2020 for cash proceeds of HK\$2,000,000.

Certain restaurants were making loss during the period due to the economic downturn and the Coronavirus disease 2019 (“COVID-19”) outbreak and the operation may continue to be affected by the uncertainties that brought by the COVID-19 outbreak. As a result, the management recognised impairment loss of approximately HK\$3,979,000 (six months ended 30 September 2019: HK\$34,000) for certain property, plant and equipment during the six months ended 30 September 2020, which was estimated based on the recoverable amount of each individual restaurant cash generating unit based on higher of the value-in-use calculation using cash flow projections based on financial budgets covering a period of the remaining lease term approved by the Directors and a pre-tax discount rate of 15.2%.

10. TRADE AND OTHER RECEIVABLES

| | 30 September 2020 <i>HK\$'000</i> (Unaudited) | 31 March 2020 <i>HK\$'000</i> (Audited) |
|-------------------|--|--|
| Trade receivables | <u>357</u> | <u>399</u> |

The Group's sales are mainly conducted in cash or by credit cards of which the settlement period is normally within 3 days from transaction date. The credit period granted by the Group to its corporate customers ranges 0 to 30 days.

These balances are mainly due from financial institutions in relation to the payment settled by credit cards and corporate customers and there is no recent history of default.

No loss allowance of trade receivables was made as at 30 September 2020 and 31 March 2020.

11. TRADE AND OTHER PAYABLES

| | 30 September 2020 <i>HK\$'000</i> (Unaudited) | 31 March 2020 <i>HK\$'000</i> (Audited) |
|----------------|--|--|
| Trade payables | <u>4,494</u> | <u>2,058</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.

12. BANK BORROWINGS

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

| | 30 September 2020 <i>HK\$'000</i> (Unaudited) | 31 March 2020 <i>HK\$'000</i> (Audited) |
|---------------------------------------|--|--|
| Within one year | 29,318 | 31,063 |
| After one year but within two years | 5,648 | 11,438 |
| After two years but within five years | <u>1,247</u> | <u>2,285</u> |
| | <u>36,213</u> | <u>44,786</u> |

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

| | 30 September 2020 HK\$'000 (Unaudited) | 31 March 2020 HK\$'000 (Audited) |
|-----------------|---|---|
| Within one year | <u>36,213</u> | <u>44,786</u> |

As at 30 September 2020, the bank borrowings carried floating interest rate of 1 month HIBOR plus 1% to 2.5% per annum (31 March 2020: 1 month HIBOR plus 1% to 2.5% per annum). The effective interest rates on the bank borrowings are 2.62% (30 September 2019: 3.19%) per annum during the period ended 30 September 2020.

As at 30 September 2020, the 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\$15,358,000 (31 March 2020: HK\$15,217,000).

As at 30 September 2020, the Group's corporate purchasing card was guaranteed by a director of the Company, to the extent of HK\$3,400,000 (31 March 2020: HK\$3,700,000).

As at 30 September 2020, the bank has provided financial guarantee of HK\$2,085,000 (31 March 2020: HK\$2,085,000) and performance bond of HK\$1,200,000 (31 March 2020: HK\$1,200,000) to the landlords of the Group as deposits to secure the tenants' due performance and observances of the terms and conditions contained in the tenancy agreements.

13. SHARE CAPITAL

| | Number of shares | Share capital HK\$ |
|--|-----------------------------|-------------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| As at 1 April 2019, 31 March 2020, 1 April 2020 and 30 September 2020 | <u>5,000,000,000</u> | <u>50,000,000</u> |
| Issued and fully paid: | | |
| As at 1 April 2019, 31 March 2020, 1 April 2020 and 30 September 2020 | <u>1,000,000,000</u> | <u>10,000,000</u> |

All new shares rank pari passu with the existing shares in all respects.

14. CAPITAL COMMITMENT

At 30 September 2020, the Group had capital commitment of approximately HK\$4,000,000 (31 March 2020: Nil) in relation to the acquisition of plant and equipment and related assets for operation of new restaurants.

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 and Prospects

The outbreak of COVID-19 adversely affected the catering industry in Hong Kong especially for the Chinese restaurant sector. According to the report on quarterly survey of restaurant receipts and purchases published by the Census and Statistics Department of the Hong Kong Special Administrative Region (“**Survey Report**”) for the second quarter 2020, the Chinese restaurants receipts in second quarter of 2020 compared with the second quarter of 2019 decreased by approximately 31.7% in value and approximately 32.7% in volume, while the total receipts of non-Chinese restaurants decreased by approximately 22.3% in value and approximately 22.6% in volume.

The impact was even worst in the third quarter of 2020 due to another wave of COVID-19 in July 2020. The measures of social distancing and “no dine-in restriction” implemented by the government in response to the surge in local COVID-19 infection cases caused further deterioration to the banquet and dining service industry. According to the Survey Report for the third quarter 2020, the Chinese restaurants receipts in third quarter of 2020 compared with the third quarter of 2019 decreased by approximately 46.6% in value and approximately 46.3% in volume, while the total receipts of non-Chinese restaurants decreased by approximately 30.9% in value and approximately 28.3% in volume.

While the COVID-19 conditions in Hong Kong have gradually improved in September and October 2020, with the new outbreaks in Hong Kong and the re-tightened social distancing measures in November 2020, the Directors estimate that the negative impact of COVID-19 on the catering industry in Hong Kong will persist in the fourth quarter of 2020. To continue to control the operating costs, the Group will continue to negotiate with the landlords on rent reduction and concession, adjust the operating hours of the restaurants and the Group’s staff roster. Furthermore, the Group will seek new opportunities to develop its dining and banquet services in good locations with comparable rent.

In view of the ongoing uncertainties of the Chinese catering operation in Hong Kong, the Company will explore business opportunities beyond Hong Kong, including but not limited to those in mainland China.

Business Review

As at 30 September 2020, the Group continued to operate 15 Chinese full-service restaurants under two brand names, namely, (a) “**煌府 (Palace)**” and (b) “**Royal Courtyard (煌苑)**”. The two restaurants, namely The One (Royal Courtyard) Restaurant and Shek Mun Restaurant, under the brand “**Royal Courtyard (煌苑)**” possess outdoor garden for holding wedding ceremonies.

During the six months ended 30 September 2020, the Group had terminated the lease of two restaurants, namely, Sheung Shui Restaurant in May 2020 (as disclosed in the announcement of the Company dated 21 May 2020) and Tsuen Wan Nan Fung Restaurant in September 2020, respectively. The Group also disposed of one of its subsidiaries, Lucky Reach Limited, which operated the Austin Restaurant, to an independent third party in May 2020 resulting a loss on disposal of subsidiary of approximately HK\$0.2 million.

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

| | Six months ended | |
|---|-------------------------|-------------|
| | 30 September | |
| | 2020 | 2019 |
| Number of restaurants at the beginning of the period | 18 | 19 |
| Number of newly opened restaurant(s) during the period | – | 2 |
| Number of closed restaurant(s) during the period | (3) | (2) |
| | <hr/> | <hr/> |
| Number of restaurants at the end of the period | 15 | 19 |
| | <hr/> <hr/> | <hr/> <hr/> |

According to the Company’s expansion plan disclosed in the prospectus dated 31 January 2019 (the “**Prospectus**”), the Company intended to open four restaurants in North New Territories, Yau Tsim Mong, Kwun Tong and Tai Po by the year ending 31 March 2021. The Group opened its China Hong Kong City restaurant under the new brand name of “Sea Moon Cuisine” (海月宴會廳) (as disclosed in the announcement of the Company dated 15 September 2020) in November 2020. The Company will continue to consider and open new restaurants when the opportunity arises after conducting a feasibility analysis. Given the current COVID-19 pandemic, the Board will be more cautious in implementing the expansion plan.

During the six months ended 30 September 2020, the Group also entered into a sale and purchase agreement for acquiring two Du Xiao Yue* (度小月) restaurants in Guangzhou and Shenzhen and a right to open two more restaurants under the brand name of Du Xiao Yue. The total consideration is HK\$14.5 million of which HK\$13.0 million has been paid as a deposit and included in “Deposit paid” under non-current assets in the condensed consolidated statement of financial position of the Group as at 30 September 2020. The target completion date has been extended from October 2020 to March 2021 due to the COVID-19 outbreak.

* *English name is for identification purpose only*

Financial Review

Revenue

The Group's revenue decreased by approximately 68.4% from approximately HK\$332.2 million for the six months ended 30 September 2019 to approximately HK\$105.1 million for the six months ended 30 September 2020. Such decrease in revenue was mainly due to (i) temporary suspension of restaurants and banquet services when the government imposed social distancing measures and prohibition or reduction of operating hours for dine-in services to combat and prevent the spread of COVID-19, and (ii) the total number of operated restaurants and operating days in current period was less than the six months ended 30 September 2019. The Group's revenue from banquet service significantly decreased by approximately 90.4% as compared to the six months ended 30 September 2019.

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

| | Six months ended | |
|--|-------------------------|---------|
| | 30 September | |
| | 2020 | 2019 |
| Number of comparable restaurants | 13 | 13 |
| Comparable restaurant sales (HK\$'000) | 86,364 | 248,220 |
| Guest count of comparable restaurant sales ('000) | 1,128 | 2,510 |
| Seat turnover rate of comparable restaurants ^(Note) | 1.4 | 2.0 |
| Average spending per customer of comparable restaurants (HK\$) | 77 | 99 |

Note: Seat turnover rate equals guest count during a period divided by seating capacity of the relevant restaurants and further divided by the number of operating days in the relevant period. 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. The Directors consider that such occasional adjustment should not affect the reliability of the seat turnover rate in the table above.

Other income

The Group's other income increased significantly by approximately 578.7% from approximately HK\$4.3 million for the six months ended 30 September 2019 to approximately HK\$29.3 million for the six months ended 30 September 2020. The increase was due to one-off government grants of approximately HK\$22.9 million received during the six months ended 30 September 2020.

Other gains (losses)

The Group's other losses for the six months ended 30 September 2019 was HK\$48,000, while for the six months ended 30 September 2020 the Group recorded other gains, net of HK\$3.1 million. The reason was due to one-off net gain from lease modification of approximately HK\$22.3 million (2019: Nil) and net of total provision of impairment for property, plant and equipment and right-of-use assets of HK\$19.0 million for the six months ended 30 September 2020 (six months ended 30 September 2019: HK\$34,000).

Cost of food and beverages

The Group's cost of food and beverages decreased by approximately 67.4%, from approximately HK\$80.7 million for the six months ended 30 September 2019 to approximately HK\$26.3 million for the six months ended 30 September 2020, which was generally in line with the decrease in revenue. The cost of good and beverages as a percentage of revenue remained relatively stable at 25.0% (six months ended 30 September 2019: 24.3%).

Staff costs

The Group's staff costs decreased by approximately 65.4%, from approximately HK\$127.1 million for the six months ended 30 September 2019 to approximately HK\$44.0 million for the six months ended 30 September 2020. Such decrease was mainly due to (i) headcount reduction, employing less part-time employee and staff cost control as a result of temporary suspension of restaurants operations and banquet services as referred to above; and (ii) the total number of operated restaurants was less in the current period as compared to the six months ended 30 September 2019. The staff costs as a percentage of revenue increased to 41.9% (six months ended 30 September 2019: 38.2%). Such increase was mainly due to portion of staffs remuneration were fixed in nature once the turnover decrease will increase its weight towards the turnover.

Property rentals and related expenses

The Group's property rentals and related expenses decreased by approximately 22.7%, from approximately HK\$34.3 million for the six months ended 30 September 2019 to approximately HK\$26.5 million for the six months ended 30 September 2020. Such significant decrease was mainly due to (i) rent concessions from certain landlords; and (ii) the total number of operated restaurants in current period was less than the six months ended 30 September 2019.

Loss for the period

Loss for the period increased by approximately 34.9%, from approximately HK\$42.5 million for the six months ended 30 September 2019 to approximately HK\$57.3 million for the six months ended 30 September 2020. Such increase was mainly due to the combined effect of impairment of property, plant and equipment and right-of-use assets of a total of approximately HK\$19.0 million for the current period and other factors 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 periodically review the capital structure of the Group and may take different measures, including adjusting the distribution of dividends to the shareholders, to issuing new shares or selling 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. The principal source of funding is mainly from working capital generated internally from the Group's operation, bank borrowings and the net proceeds received from the Listing.

As at 30 September 2020, the Group's cash and cash equivalents (including time deposit with maturity over three months) were approximately HK\$103.2 million (31 March 2020: HK\$139.0 million). As at 30 September 2020, the Group's total current assets and current liabilities were approximately HK\$146.2 million (31 March 2020: HK\$183.7 million) and approximately HK\$212.1 million (31 March 2020: HK\$238.5 million), respectively, while the current ratio of the Group was approximately 0.7 times (31 March 2020: approximately 0.8 times).

As at 30 September 2020, the Group's total borrowings amounted to approximately HK\$36.2 million (31 March 2020: HK\$44.8 million). The borrowings were denominated in Hong Kong dollars and repayable on demand which carried floating interest rate of 1-month HIBOR plus 1.0% to 2.5% per annum.

As at 30 September 2020, the Group's gearing ratio was approximately 44.7% (31 March 2020: 32.4%), which is calculated based on the interest-bearing debts divided by total equity attributable to owners of the Company as at 30 September 2020 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 30 September 2020 was reasonable.

CAPITAL EXPENDITURE

The capital expenditure during the period under review primarily related to expenditures on additions and renovation of property, plant and equipment for the Group's new restaurants in Hong Kong, acquisition of restaurants in Guangzhou and Shenzhen 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 30 September 2020, the Group did not have any material contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 September 2020, the Group had approximately 371 employees (as at 31 March 2020: 279 employees).

The Group offers competitive wages and other benefits to its restaurant employees, and carries out salary adjustments in response to the local labour market conditions. The staff costs primarily consisted of salaries, allowances, and other benefits, contributions to retirement benefits scheme and Directors' 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 30 September 2020.

CHARGES ON GROUP'S ASSETS

As at 30 September 2020, the deposit placed for a life insurance policy amounting to approximately HK\$15.4 million (as at 31 March 2020: HK\$15.2 million) was pledged to secure the Group's bank borrowings.

SIGNIFICANT INVESTMENTS

As at 30 September 2020, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 September 2020, the Group had no material acquisition or disposal of subsidiaries, associates or joint ventures.

EVENTS AFTER THE REPORTING PERIOD

On 18 September 2020, Tai Shing Stock Investment Company Limited (the "**Placing Agent**") and the Company entered into a placing agreement (the "**Placing Agreement**") pursuant to which the Placing Agent has agreed to place, on a best effort basis, up to 200,000,000 placing shares (the "**Placing Shares**") at the placing price of HK\$0.25 per Placing Share (the "**Placing**"). The completion of the Placing took place on 6 October 2020. A total of 150,000,000 of the Placing Shares had been successfully placed and issued under the general mandate granted to the Directors by resolution of the Shareholders passed at the annual general meeting of the Company held on 20 September

2019. The gross proceeds and net proceeds from the Placing amounted to approximately HK\$37.5 million and HK\$36.5 million, respectively. The net proceeds would be used for the general working capital and to improve the cash position of the Group. Details of the Placing were set out in the announcements of the Company dated 18 September 2020 and 6 October 2020.

Saved as disclosed above, no significant events affecting the Company occurred since 1 October 2020 and up to the date of this announcement.

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 for the six months ended 30 September 2020 and up 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. Up to 30 September 2020, the Company has utilised approximately HK\$31.7 million of the Net Proceeds for the purposes as set out in the Prospectus, representing approximately 34.2% of the Net Proceeds.

| Use of Net Proceeds | Approximate percentage of the total amount | Actual Net Proceeds HK\$'000 | Amount utilised up to 30 September 2020 HK\$'000 | Unused Net Proceeds HK\$'000 |
|---|---|---|---|---|
| Opening a total of eight restaurants | 76.1% | 70,557 | 11,778 | 58,779 |
| Renovation of existing restaurants | 14.1% | 13,063 | 13,063 | – |
| Promoting brands | 5.0% | 4,633 | 2,363 | 2,270 |
| Additional working capital, strategic investment and other general corporate purposes | 4.8% | 4,481 | 4,481 | – |
| | <u>100.0%</u> | <u>92,734</u> | <u>31,685</u> | <u>61,049</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

The Board does not recommend payment of an interim dividend for the six months period ended 30 September 2020 (six months period ended 30 September 2019: Nil).

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.

During the six months ended 30 September 2020, 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 six months ended 30 September 2020.

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 during the six months ended 30 September 2020.

AUDIT COMMITTEE

The Board has established an 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 our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

The Audit Committee, together with management, has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2020.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.palace-rest.com.hk). The interim 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 due course.

APPRECIATION

The Board would like to express its sincere thanks to the management team and all staff of the Group for their dedication and contribution. The Board also takes this opportunity to show gratitude to our shareholders, customers, business partners and professional parties for their support to the Group throughout the six months ended 30 September 2020.

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

Hong Kong, 27 November 2020

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