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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)

DISCLOSEABLE TRANSACTION ACQUISITION OF RIGHT-OF-USE ASSETS NEW LEASE AT 7/F DRAGON CENTRE IN SHAM SHUI PO

THE NEW LEASE

The Board announces that on 24 January 2020, Eternal Grand, an indirect wholly-owned subsidiary of the Company, entered into the New Lease with the Landlord, an Independent Third Party in respect of the Premises for a term of six years commencing from 1 May 2020 to 30 April 2026 (both days inclusive) for new Shum Shui Po restaurant to be opened by the Group.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, Dragon Centre Management and its ultimate beneficial owners are Independent Third Parties.

Pursuant to HKFRS 16, the tenancy of the Premises will be recognised as right-of-use assets for an amount of approximately HK\$28.4 million, which is calculated with reference to the present value of the aggregated lease payments to be made under the New Lease.

LISTING RULES IMPLICATIONS

As one or more than one of the applicable percentage ratios in respect of the New Lease is more than 5% and below 25%, the New Lease constitutes a discloseable transaction for the Company, and is therefore subject to the notification and announcement requirements but exempt from Shareholders' approval requirement pursuant to Chapter 14 of the Listing Rules.

BACKGROUND

The Board announces that on 24 January 2020, Eternal Grand, an indirect wholly-owned subsidiary of the Company, entered into the New Lease with the Landlord, an Independent Third Party in respect of the Premises for a term of six years commencing from 1 May 2020 to 30 April 2026 (both days inclusive) for new Shum Shui Po restaurant to be opened by the Group.

THE NEW LEASE

Details of the principal terms of the New Lease are set out below:

| | | |
|-------------------------|---|--|
| Date | : | 24 January 2020 |
| Parties | : | (i) Dragon Centre Management, an Independent Third Party, as the Landlord (ii) Eternal Grand, an indirect wholly-owned subsidiary of the Company, as the Tenant |
| Premises | : | Unit No. 701, 7/F, Dragon Centre, No. 37K Yen Chow Street, Sham Shui Po, Kowloon |
| Term | : | Six years commencing from 1 May 2020 and expiring on 30 April 2026 (both days inclusive) |
| Gross floor area | : | Approximately 1,422.43 square meters |
| Rent-free period | : | From 1 May 2020 to 30 June 2020 (both days inclusive) and from 1 April 2023 to 30 April 2023 (both days inclusive), all inclusive of management charge, air-conditioning fee, promotional levy but exclusive of rates and all other outgoings during the term |
| Monthly rental | : | (i) monthly rent of HK\$760,000 from 1 May 2020 to 30 April 2023; and (ii) monthly rent of HK\$832,200 from 1 May 2023 to 30 April 2026; and all inclusive of management charge, air-conditioning fee, promotional levy but exclusive of rates and all other outgoings during the term |

The rent under the New Lease was determined after arm's length negotiations between the Landlord and Eternal Grand, and taking into consideration the prevailing market price for comparable premises in the vicinity of the Premises and the rental being paid to the Landlord for the premises of the West Kowloon Restaurant

Rates : The Tenant shall pay rates charged on the Premises as assessed by the government of Hong Kong.

Service charges : Payable by the Landlord

Promotion levy : Payable by the Landlord

Holding deposit: HK\$760,000 (equivalent to one month's rent plus management charge, air-conditioning fee and promotion levy) to reserve the Premises, which will be used to pay the first month's rent (including management charge, air-conditioning fee and promotion levy). If the Tenant refuses or fails to sign the formal lease, the Landlord will forfeit the holding deposit.

The holding deposit has been paid as at 24 January 2020 by the Group's internal source of funding.

Security deposit : A cash deposit of HK\$4,993,200 (equivalent to six months' rent plus six months' management charge, air-conditioning fee and promotional levy) is payable upon signing of the formal lease agreement

Stamp duty : To be shared equally between the parties

The monthly rent payment, the security deposit and the stamp duty will be paid by the Group's internal source of funding.

RIGHT-OF-USE ASSETS

Pursuant to HKFRS 16, the tenancy of the Premises will be recognised as right-of-use assets for an amount of approximately HK\$28.4 million, which is calculated with reference to the present value of the aggregated lease payments to be made under the New Lease.

REASONS FOR AND BENEFITS OF THE NEW LEASE

As disclosed in “Business – Business Strategies – Our restaurant expansion plan” in the Prospectus, as part of the Group’s expansion plan, the Group has planned to open a restaurant in Shum Shui Po for the year ending 31 March 2020. The Group has planned to open its new Shum Shui Po restaurant at the Premises.

The Group currently operates the West Kowloon Restaurant on the ninth floor of the same building of the Premises and the landlord of the West Kowloon Restaurant is the same landlord as the Premises. The previous tenant of the Premises operated a Chinese restaurant offering mainly Cantonese dining service at the Premises, which was a competitor of the West Kowloon Restaurant. It has come to the attention of the Company that the Landlord is seeking a new tenant at the Premises after the previous tenant moved out, to the Directors’ best knowledge, information and belief.

Furthermore, as disclosed in “Business – Business Strategies – Expanding our restaurant network and geographic coverage by opening more restaurants in Hong Kong” and “Business – Business Strategies – Our restaurant expansion plan” in the Prospectus, the Group has plans to develop banquet services in its new restaurants so as to benefit from a more stable revenue stream throughout the year and growing demand for the dining services. As such, the Company plans to operate this new restaurant at the Premises to focus on banquet service rather than dining service. This will ensure the Company can expand its revenue base without compromising the service offerings or creating competition with its existing West Kowloon Restaurant. The Company will fund this expansion through its Net Proceeds allocated for the opening of the Shum Shui Po restaurant and internal source of funding.

The Directors believe that the Premises is located at a convenient location with good customer traffic. Opening the new restaurant at the Premises, which has a larger gross floor area to cater more tables for hosting banquets, will also allow the Group to further expand its stream of revenue in banquet services. Also, the West Kowloon Restaurant has been showing positive results in the past and in the latest financial year, being the year ended 31 March 2019. Thus, the Directors believe that Premises will be a good location to open the new restaurant.

The Directors, including the independent non-executive Directors, considered that the transactions contemplated under the New Lease was entered into in the ordinary and usual course of business of the Group, and the New Lease was entered into on normal commercial terms after arm’s length negotiations between the parties, and the terms of the transactions contemplated under the New Lease are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

UPDATE ON THE PROGRESS OF THE USE OF NET PROCEEDS FROM THE SHARE OFFER

Reference is made to (i) the Prospectus in relation to the use of Net Proceeds; and (ii) the interim report of the Company dated 19 December 2019 in relation to the updates regarding the use of Net Proceeds. The Net Proceeds was approximately HK\$92,734,000.

The total amount allocated from the Net Proceeds for the opening of the new Shum Shu Po restaurant is approximately HK\$8.6 million. As disclosed in the “Business – Business Strategies – Our restaurant expansion plan” in the Prospectus, the Shum Shui Po restaurant is expected to have a total seating capacity of 420 seats with an expected spending per customer to be between HK\$90.0 to HK\$130.0. The total capital expenditure for opening the restaurant is expected to be HK\$10.8 million, with a breakeven period of two to three months, and an investment payback period of 16 to 24 months.

Based on the Directors estimation of the Premises, the estimated seating capacity of the new Shum Shui Po restaurant at the Premises is expected to be approximately 600 seats and the total capital expenditure for opening the Shum Shui Po restaurant is expected to be approximately HK\$14.0 million, while the expected spending per customer, breakeven period and investment payback period remain the same. The total capital expenditure will be funded by approximately HK\$8.6 million allocated for opening the Shum Shui Po restaurant from the Net Proceeds and approximately HK\$5.4 million from internal source of funding.

The following table sets out the updated breakdown for the use of Net Proceeds after completion of opening the new Shum Shui Po restaurant:

| Use of Net Proceeds | Approximately percentage of total amount % | Actual Net Proceeds HK\$ '000 | Amount Utilised HK\$ '000 | Unused Net Proceeds HK\$ '000 |
|---|---|--|--|--|
| Opening eight restaurants | 76.1 | 70,557 | (16,000) | 54,557 |
| Renovation of existing restaurants | 14.1 | 13,063 | (13,063) | – |
| Promoting brands | 5.0 | 4,633 | (1,688) | 2,945 |
| 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>(35,180)</u> | <u>57,554</u> |

INFORMATION ABOUT THE PARTIES

The Company

The Company is an investment holding company that holds all of the subsidiaries of the Group, the shares of which are listed on the Stock Exchange (stock code: 1703). The Group is a full-service restaurant group in Hong Kong offering Cantonese dining service and banquet service, including wedding banquet service. The Group operates Chinese full-service restaurants under two brand names, namely, brands with the word(s) “煌府 (Palace)” and “Royal Courtyard (煌苑)”.

Eternal Grand

Eternal Grand is a limited liability company incorporated under the laws of Hong Kong on 30 December 2019, which is an indirect wholly-owned subsidiary of the Company. Eternal Grand is a newly incorporated company for the lease of the Premises and operations of the new Shum Shui Po restaurant. Its principal business will be Chinese restaurant operations.

The Landlord

The Landlord, Dragon Centre Management Limited, is a limited liability company incorporated under the laws of Hong Kong on 22 April 1993. The Landlord is also the current landlord for the West Kowloon Restaurant. The principal activities of the Landlord is operation of shopping malls. The Landlord, its ultimate beneficial owners and its respective associates are Independent Third Parties to the Group and its connected persons as defined under the Listing Rules to the best of the Directors' knowledge, information and belief.

LISTING RULES IMPLICATIONS

As one or more than one of the applicable percentage ratios in respect of the New Lease is more than 5% and below 25%, the New Lease constitutes a discloseable transaction for the Company, and is therefore subject to the notification and announcement requirements but exempt from Shareholders' approval requirement pursuant to Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

| | |
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| “Board” | the board of Directors |
| “Company” | Palace Banquet Holdings Limited (首豐控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 7 June 2018 |

| | |
|--|--|
| “Director(s)” | the directors of our Company |
| “Dragon Centre Management” or the “Landlord” | Dragon Centre Management Limited (formerly known as Ocean Hero Development Limited), a limited liability company incorporated under the laws of Hong Kong on 22 April 1993, which is an Independent Third Party and the Landlord of the Premises under the New Lease |
| “Eternal Grand” or the “Tenant” | Eternal Grand (Hong Kong) Limited (宏長(香港)有限公司), a limited liability company incorporated under the laws of Hong Kong on 30 December 2019 and an indirect wholly-owned subsidiary of the Company |
| “Group” | the Company, its subsidiaries and the consolidated affiliated entities from time to time |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKFRS” | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Independent Third Party(ies)” | any person or company and their respective ultimate beneficial owner, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is not connected persons of the Company and is third party independent of the Company and its connected persons in accordance with the Listing Rules |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time |
| “New Lease” | a provisional lease agreement entered into between Dragon Centre Management as the landlord and Eternal Grand as the Tenant on 24 January 2020 in relation to the lease of the Premises |
| “Net Proceeds” | net proceeds from the Share Offer (after deducting underwriting fees and the listing expenses to be borne by the Group) |
| “Premises” | Unit No. 701, 7/F, Dragon Centre, No. 37K Yen Chow Street, Sham Shui Po, Kowloon |
| “Prospectus” | the prospectus of the Company dated 31 January 2019 |

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|---------------------------|---|
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Share Offer” | the public offering and the placing of the Shares for the listing on the Main Board of the Stock Exchange on 15 February 2019 |
| “Shareholder(s)” | holder(s) of the ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “West Kowloon Restaurant” | the restaurant located at Unit No.904, 9/F, Dragon Centre, No. 37K Yen Chow Street, Sham Shui Po, Kowloon and operated by Super Force Limited under the brand name “The Palace (焯府西九龍)” |

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

Hong Kong, 24 January 2020

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.