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Dragon King Group Holdings Limited

龍皇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8493)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

This announcement will remain on the website of the Stock Exchange at <http://www.hkexnews.hk> on the “Latest Listed Company Information” page for at least 7 days from the date of its posting and will be published on the Company’s website at www.dragonkinggroup.com.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June 2020

The unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2020, together with the unaudited comparative figures for the corresponding period in 2019, are as follows:

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
REVENUE	5	48,390	98,645	106,042	215,672
Costs of inventories consumed		(13,913)	(30,743)	(31,301)	(67,741)
Gross profit		34,477	67,902	74,741	147,931
Other income and gains, net	6	8,284	476	9,879	885
Staff costs		(20,443)	(34,665)	(44,592)	(74,577)
Depreciation of items of property, plant and equipment		(3,168)	(4,666)	(6,400)	(9,171)
Depreciation of right-of-use assets		(8,250)	(9,940)	(14,523)	(18,436)
Loss on disposal of a subsidiary		–	–	(500)	–
Rental and related expenses		(4,116)	(9,308)	(9,488)	(18,037)
Other operating expenses		(8,124)	(18,979)	(18,267)	(33,449)
Finance costs		(1,441)	(678)	(2,763)	(3,821)
Loss before tax	7	(2,781)	(9,858)	(11,913)	(8,675)
Income tax expenses	8	–	(165)	–	(825)
Loss for the period attributable to the owners of the Company		(2,781)	(10,023)	(11,913)	(9,500)
Loss per share		HK cents	HK cents	HK cents	HK cents
– Basic and diluted	10	(0.19)	(0.70)	(0.83)	(0.66)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2020

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the period	(2,781)	(10,023)	(11,913)	(9,500)
Other comprehensive income/(expense):				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
– Exchange differences on translating foreign operations	<u>49</u>	<u>(167)</u>	<u>147</u>	<u>(260)</u>
Total comprehensive expense for the period	<u>(2,732)</u>	<u>(10,190)</u>	<u>(11,766)</u>	<u>(9,760)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2020*

		Unaudited	Audited
		30 June	31 December
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	50,747	63,336
Right-of-use assets		66,125	97,234
Deposits and other receivables		9,792	10,413
Deferred tax assets		3,454	3,454
		<hr/>	<hr/>
Total non-current assets		130,118	174,437
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		10,156	10,263
Trade receivables	<i>12</i>	1,042	2,624
Prepayments, deposits and other receivables		50,778	48,556
Financial assets at fair value through profit or loss		4,944	4,864
Amount due from related companies		1,671	1,671
Tax recoverable		656	270
Bank balances and cash		10,086	14,227
		<hr/>	<hr/>
Total current assets		79,333	82,475
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	<i>13</i>	49,036	46,962
Other payables and accruals		30,051	28,338
Lease liabilities		33,068	38,058
Bank borrowings		43,670	43,423
Tax payable		1,950	2,714
		<hr/>	<hr/>
Total current liabilities		157,775	159,495
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(78,442)	(77,020)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		51,676	97,417
		<hr/> <hr/>	<hr/> <hr/>

		Unaudited	Audited
		30 June	31 December
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Other payables and accruals		2,408	2,468
Lease liabilities		28,198	62,475
Loan from a shareholder		14,639	14,277
		<hr/>	<hr/>
Total non-current liabilities		45,245	79,220
		<hr/>	<hr/>
NET ASSETS		6,431	18,197
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	<i>14</i>	14,400	14,400
(Deficit)/Reserve		(7,969)	3,797
		<hr/>	<hr/>
TOTAL EQUITY		6,431	18,197
		<hr/>	<hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2019	14,400	88,057	(43,224)	42,703	(316)	(48,397)	53,223
Loss for the period	-	-	-	-	-	(9,500)	(9,500)
Other comprehensive expenses for the period, net of income tax							
<i>Item that may be reclassified subsequently to profit or loss:</i>							
Exchange differences arising on translation of foreign operations	-	-	-	-	(260)	-	(260)
Total comprehensive expense for the period	-	-	-	-	(260)	(9,500)	(9,760)
At 30 June 2019 (Unaudited)	<u>14,400</u>	<u>88,057</u>	<u>(43,224)</u>	<u>42,703</u>	<u>(576)</u>	<u>(57,897)</u>	<u>43,463</u>
At 1 January 2020	14,400	88,057	(43,224)	42,703	131	(83,870)	18,197
Loss for the period	-	-	-	-	-	(11,913)	(11,913)
Other comprehensive expenses for the period, net of income tax							
<i>Item that may be reclassified subsequently to profit or loss:</i>							
Exchange differences arising on translation of foreign operations	-	-	-	-	147	-	147
Total comprehensive expense for the period	-	-	-	-	147	(11,913)	(11,766)
At 30 June 2020 (Unaudited)	<u>14,400</u>	<u>88,057</u>	<u>(43,224)</u>	<u>42,703</u>	<u>278</u>	<u>(95,783)</u>	<u>6,431</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
NET CASH FROM OPERATING ACTIVITIES	10,205	10,892
INVESTING ACTIVITIES		
Interest received	2	3
Consideration received from disposal of a subsidiary	2,782	–
Purchases of items of property, plant and equipment	–	(944)
Proceeds from withdrawal of life insurance policies	–	11,187
NET CASH FROM INVESTING ACTIVITIES	2,784	10,246
FINANCING ACTIVITIES		
New bank borrowings	11,171	17,797
Repayment of bank borrowings	(10,924)	(21,415)
Loan from a shareholder	–	20,000
Payment of lease liabilities	(17,483)	(20,447)
NET CASH USED IN FINANCING ACTIVITIES	(17,236)	(4,065)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,247)	17,073
Cash and cash equivalents at the beginning of the period	14,227	17,989
Effect of foreign exchange rate changes	106	(172)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD,		
represented by bank balances and cash	10,086	34,890

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 8 August 2016. The registered office address of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at Office A, 20/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong. The Company's shares are listed on GEM of the Stock Exchange since 16 January 2018.

The Company is an investment holding company. The Group is principally engaged in the operation and management of restaurants in Hong Kong, Macau and People's Republic of China (the "PRC").

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 are consistent with those adopted in the Group's audited annual report dated 23 March 2020 (the "2019 Annual Report"), except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "New and Revised HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that are adopted for the first time for the current periods financial statements.

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited condensed consolidated financial statements for the six months ended 30 June 2020 and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared under the historical cost convention. The unaudited condensed consolidated financial statements for the six months ended 30 June 2020 are presented in thousand of Hong Kong dollars ("HK\$'000"), which is also the functional currency of the Group.

During the six months ended 30 June 2020, the Group recorded a consolidated net loss of approximately HK\$11,913,000 (2019: approximately HK\$9,500,000), and as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$78,442,000 (31 December 2019: approximately HK\$77,020,000).

As at 30 June 2020, the Group had cash and cash equivalents of approximately HK\$10,086,000 (31 December 2019: approximately HK\$14,227,000), and outstanding interest-bearing bank borrowings of approximately HK\$43,670,000 (31 December 2019: approximately HK\$43,423,000), of which approximately HK\$21,073,000 (31 December 2019: approximately HK\$18,804,000) were due for repayment or renewal within the next twelve months after 30 June 2020.

The Directors consider the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis after taking into consideration the followings:

- (i) the Group had interest-bearing bank borrowings of approximately HK\$43,670,000 as at 30 June 2020, of which approximately HK\$21,073,000 is repayable within one year. The remaining interest-bearing bank borrowings, amounting to approximately HK\$22,597,000 were classified as current liabilities due to the existence of a repayment on demand clause in the loan agreements. The Group will actively negotiate with the bank for the renewal of the Group's bank borrowings when they fall due in order to secure necessary funds to meet the Group's working capital and financial requirements in the foreseeable future. In the opinion of the Directors, the Group will be able to roll over or refinance the bank borrowings upon their maturity;
- (ii) management has been endeavoring to improve the Group's operating results and cash flows through various cost control measures and will slow down the opening of new restaurants or will close underperforming restaurants in the future;
- (iii) negotiating with banks for new banking facilities;
- (iv) negotiating with the landlords for rent concessions due to the reduced number of customers as overshadowed by the outbreak of novel coronavirus; and
- (v) all Directors, senior management members and employees agreed and will have a seven-days unpaid leave starting from February 2020 in order to save cost and will be reviewed by the board of Directors (the "**Board**") at the end of each month.

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

3. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Financial risk factor

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at 31 December 2019.

There have been no changes in the risk management policies since year end.

(b) **Liquidity risk**

Compared to year end, there have been no material changes to the policies and practices for the Group's liquidity and funding risks management as described in the consolidated financial statements for the year ended 31 December 2019.

(c) **Fair value estimation**

The carrying values of receivables and payables are reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

5. **REVENUE**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers				
Restaurant operations	<u>48,390</u>	<u>98,645</u>	<u>106,042</u>	<u>215,672</u>

(i) **Disaggregated revenue information**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Type of goods or services				
Revenue from Chinese restaurant operations	<u>48,390</u>	<u>98,645</u>	<u>106,042</u>	<u>215,672</u>
Geographical markets				
Hong Kong and Macau	<u>41,519</u>	<u>89,096</u>	<u>94,822</u>	<u>195,920</u>
The PRC	<u>6,871</u>	<u>9,549</u>	<u>11,220</u>	<u>19,752</u>
Total	<u>48,390</u>	<u>98,645</u>	<u>106,042</u>	<u>215,672</u>
Timing of revenue recognition				
At a point in time	<u>48,390</u>	<u>98,645</u>	<u>106,042</u>	<u>215,672</u>

(ii) **Performance obligations for contracts with customers**

Operation and management of restaurants

The performance obligation is satisfied when the catering services have been provided to customers. The Group's trading terms with its customers are mainly on cash and credit card settlement. The credit period is generally few days to 60 days.

(iii) **Transaction price allocated to the remaining performance obligation for contracts with customers**

All revenue contracts are for a period of one year or less. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. OTHER INCOME AND GAINS, NET

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income and gains, net				
Bank interest income	1	1	2	3
Fair value gains on financial assets at fair value through profit or loss	40	50	80	156
Subsidies received from a utility company for purchases of items of property, plant and equipment*	147	139	252	278
Subsidies received from government	7,587	–	8,987	–
Others	509	286	558	448
	<u>8,284</u>	<u>476</u>	<u>9,879</u>	<u>885</u>

* As at 30 June 2020 and 2019, there were no unfulfilled conditions or other contingencies attaching to the subsidies that had been recognised by the Group.

7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contingent rents under operating leases*	–	37	490	472
Auditor's remuneration	250	300	500	600
Employee benefit expense (excluding directors' and chief executive's remuneration)				
Wages and salaries	18,135	31,522	39,724	67,056
Pension scheme contributions	943	1,637	2,045	3,488
	<u>19,078</u>	<u>33,159</u>	<u>41,769</u>	<u>70,544</u>

* Contingent rents under operating leases are included in "Rental and related expenses" in the unaudited condensed consolidated statement of profit or loss.

8. INCOME TAX EXPENSES

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

For the six months ended 30 June 2020 and 2019, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

PRC tax and Macau tax have been provided at the rate of 25% and 12% on the estimated profits arising in the PRC and Macau during the six months ended 30 June 2020 (2019: 25% and 12%), respectively.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Current – Hong Kong	–	165	–	825
Total tax charge for the period	–	165	–	825

9. DIVIDEND

The Board does not recommend any payment of interim dividend in respect of the six months ended 30 June 2020 (2019: Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	(2,781)	(10,023)	(11,913)	(9,500)
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	1,440,000	1,440,000	1,440,000	1,440,000
Basic loss per share (HK cents per share)	(0.19)	(0.70)	(0.83)	(0.66)

11. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2020, the Group does not have any purchases of property, plant and equipment (2019: approximately HK\$4.1 million).

12. TRADE RECEIVABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 <i>HK\$'000</i>
Contracts with customers	<u>1,042</u>	<u>2,624</u>

Certain customers are granted credit period from few days to 60 days. The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date, which approximates the respective revenue recognition dates:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 <i>HK\$'000</i>
Within 1 month	865	2,566
1 to 2 months	127	14
Over 3 months	<u>50</u>	<u>44</u>
	<u>1,042</u>	<u>2,624</u>

13. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 <i>HK\$'000</i>
Within 1 month	6,657	9,112
1 to 2 months	4,418	5,930
2 to 3 months	5,140	3,792
Over 3 months	<u>32,821</u>	<u>28,128</u>
	<u>49,036</u>	<u>46,962</u>

14. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2019 and 30 June 2020	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
As at 31 December 2019 and 30 June 2020	<u>1,440,000,000</u>	<u>14,400</u>

15. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the unaudited condensed consolidated financial statements, the Group had the following transactions with related parties during the period:

Directors' and chief executive's emoluments

The remuneration of each director and the chief executive for the reporting period are as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,169 [^]	1,500 [^]	2,524	3,000 [^]
Pension scheme contributions	9	9	18	18
	<u>1,178</u>	<u>1,509</u>	<u>2,542</u>	<u>3,018</u>

[^] Included in the above salaries, allowances and benefits in kind are estimated rentals of approximately HK\$171,000 (2019: HK\$171,000) for each of Mr. Wong Wing Chee and Ms. Lee Ching Nung Angel, for a building owned by the Group as directors' quarter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

The Group is a Cantonese full-service restaurants group operating Cantonese cuisine restaurant under four self-owned brands.

Restaurant Operations

For the six months ended 30 June 2020, the Group operated ten full-service restaurants in Hong Kong, Macau and Shanghai, the PRC to provide Cantonese cuisine under the brand name of “Dragon King (龍皇)”, “Dragon Seal (龍璽)”, “Dragon Gown (龍袍)”, “Imperial Seal (皇璽)” and “Dragon Feast (龍宴)”. All of the Group’s restaurants are strategically located in prominent commercial areas, residential areas or shopping complexes. The Group is committed to providing quality food and services as well as comfortable dining environment to the customers.

Vast majority of the Group’s restaurants are located in Hong Kong. As at 30 June 2020, the Group had seven restaurants in Hong Kong, two of which are located on Hong Kong Island (respectively known as the “Causeway Bay Restaurant” and the “Wan Chai Restaurant”), four of which are located in Kowloon (respectively known as the “ICC Restaurant”, the “Kwun Tong Restaurant”, the “San Po Kong Restaurant” and the “Whampoa Restaurant”), and one of which is located in the New Territories (known as the “Kwai Chung Restaurant”). The Group’s restaurant in Macau is located in the Venetian Macao (known as the “Macau Restaurant”) and the restaurant in Shanghai is located in Pudong New District (known as the “Shanghai Restaurant”).

In January 2020, the restaurant under the brand name of “Dragon Feast (龍宴)” located in Sheung Shui (the “Sheung Shui Restaurant”) was disposed of to an independent third party due to the worsening financial performance in recent years.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group recorded a total revenue of approximately HK\$106.0 million, representing a significant decrease of approximately HK\$109.7 million or approximately 50.9% as compared to approximately HK\$215.7 million for the six months ended 30 June 2019.

The table below sets forth a breakdown of the Group's revenue generated by each of the Group's self-owned brands:

	For the six months ended 30 June			
	2020		2019	
	Revenue	% of total	Revenue	% of total
	HK\$'000	revenue	HK\$'000	revenue
		(%)		(%)
Dragon King (龍皇)	69,176	65.2%	123,652	57.3%
Dragon Seal (龍璽)	12,729	12.0%	33,007	15.3%
Dragon Gown (龍袍)	9,987	9.4%	15,387	7.1%
Imperial Seal (皇璽)	11,220	10.6%	19,752	9.2%
Dragon Feast (龍宴)*	2,930	2.8%	23,874	11.1%
Total revenue	<u>106,042</u>	<u>100.0%</u>	<u>215,672</u>	<u>100.0%</u>

* Disposed of on 17 January 2020

Dragon King (龍皇)

The revenue generated from Dragon King significantly decreased by approximately HK\$54.5 million, or approximately 44.1%, from approximately HK\$123.7 million for the six months ended 30 June 2019 to approximately HK\$69.2 million for the six months ended 30 June 2020.

The overall decrease in revenue was mainly due to the outbreak of novel coronavirus (the “**Pandemic**”) in Hong Kong during the first and second quarter of 2020 and the resulting anti-epidemic precautionary measures including restrictions on catering business premises imposed in Hong Kong which had an adverse impact on the revenue generated during the six months ended 30 June 2020.

Dragon Seal (龍璽)

The revenue generated from Dragon Seal significantly decreased by approximately HK\$20.3 million, or approximately 61.5%, from approximately HK\$33.0 million for the six months ended 30 June 2019 to approximately HK\$12.7 million for the six months ended 30 June 2020. Such decrease was mainly due to the Pandemic and the anti-epidemic precautionary measures discussed above and the restaurant operation was temporarily suspended for 10 days during February 2020 in order to control the spread of the Pandemic.

Dragon Gown (龍袍)

The revenue generated from Dragon Gown significantly decreased by approximately HK\$5.4 million, or approximately 35.1%, from approximately HK\$15.4 million for the six months ended 30 June 2019 to approximately HK\$10.0 million for the six months ended 30 June 2020. Such decrease was mainly due to the Pandemic and the anti-epidemic precautionary measures discussed above.

Imperial Seal (皇璽)

The revenue generated from Imperial Seal significantly decreased by approximately HK\$8.6 million, or approximately 43.4%, from approximately HK\$19.8 million for the six months ended 30 June 2019 to approximately HK\$11.2 million for the six months ended 30 June 2020. Such decrease was mainly due to the Pandemic spread in the PRC and the operation of restaurant was suspended from late January 2020 to early March 2020.

Dragon Feast (龍宴)

The revenue generated from Dragon Feast significantly decreased by approximately HK\$21.0 million, or approximately 87.9%, from approximately HK\$23.9 million for the six months ended 30 June 2019 to approximately HK\$2.9 million for the six months ended 30 June 2020. Such decrease was mainly due to the Company disposed of the Sheung Shui Restaurant to an independent third party in mid-January 2020.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of inventories consumed) amounted to approximately HK\$74.7 million for the six months ended 30 June 2020, representing a significant decrease of approximately HK\$73.2 million or approximately 49.5% from approximately HK\$147.9 million for the six months ended 30 June 2019 driven by the decrease in revenue.

The Group's overall gross profit margin slightly increased by 1.9% for the six months ended 30 June 2020 when compared to the six months ended 30 June 2019 due to the cost control on food ingredients.

Other income and gains, net

Other income and gains, net increased by approximately HK\$9.0 million from approximately HK\$0.9 million for the six months ended 30 June 2019 to approximately HK\$9.9 million for the six months ended 30 June 2020. Such increase were mainly due to the one-off subsidies amounted to approximately HK\$6.9 million and approximately HK\$2.1 million received from the The Food and Environmental Hygiene Department and the Employment Support Scheme from the HKSAR Government under the Anti-epidemic Fund, respectively.

Staff costs

Staff costs was approximately HK\$44.6 million for the six months ended 30 June 2020, representing a decrease of approximately HK\$30.0 million or approximately 40.2% as compared to HK\$74.6 million for the six months ended 30 June 2019. Such decrease was mainly due to all Directors, senior management members and employees of the Group agreed and have unpaid leaves starting from February 2020 to June 2020 as one of the cost controls measures in response to the Pandemic.

Depreciation of right-of-use assets

Depreciation of right-of-use assets was charged on a straight-line basis over the lease term. The lease terms of the leased premises are generally between three to ten years, with some lease agreements provide an option for the Group to renew.

Rental and related expenses

The Group's rental and related expenses decreased by approximately HK\$8.5 million or approximately 47.2% from approximately HK\$18.0 million for the six months ended 30 June 2019 to approximately HK\$9.5 million for the six months ended 30 June 2020. Such decrease was mainly due to certain short-term lease payment, management fees and promotion levy were waived by landlord due to the Pandemic.

Other operating expenses

The Group's other operating expenses decreased by approximately HK\$15.1 million or approximately 45.2% from approximately HK\$33.4 million for the six months ended 30 June 2019 to approximately HK\$18.3 million for the six months ended 30 June 2020. Such decrease was mainly due to the improvement of operational efficiency as a result of the Group's further control over its operational costs.

Loss attributable to owners of the Company

For the six months ended 30 June 2020, the Group recorded a loss attributable to owners of the Company of approximately HK\$11.9 million, as compared with loss of approximately HK\$9.5 million for the six months ended 30 June 2019. It was mainly due to the Pandemic and the anti-epidemic precautionary measures imposed by the HKSAR Government which led to a significant decrease in revenue during the six months ended 30 June 2020.

PROSPECTS

The shares of the Company were listed on GEM of the Stock Exchange (the "**Listing**") on 16 January 2018 (the "**Listing Date**") by way of share offer. The Directors believe that Listing could enhance the Group's profile and recognition which will enhance the customers' confidence to the Group. In addition, the net proceeds from the share offer will provide additional resources to the Group to expand its business and improve its capital base.

In view of the recent economic downturn accompanied by the unstable social atmosphere and the outbreak of the Pandemic in Hong Kong, the Group will adopt a conservative and cautious approach to operate its business. The food and beverage industry is facing a very challenging business environment including a slowdown in economic growth in Hong Kong, weaken consumption sentiments starting from the second half of 2019, reduction in number of visitors that affected the total consumptions in the Group's restaurants, the uncertainties of the Sino-US trade war and the anti-epidemic precautionary measures including restrictions on catering business premises imposed by the HKSAR Government. The total effects of the above pose a challenge to the Group's business.

On the other hand, the staff costs and food costs remained relatively high despite the current economic downturn, therefore the Group is facing pressure on striking the balance between cost control and the qualities of the food and services. Another major cost component for the Group is the rental expenses. The Group has been negotiating with the landlords for rent concessions as some of the Group's restaurants could not be opened due to the ongoing protests and the reduced number of visitors as overshadowed by the outbreak of the Pandemic.

To address the current weakness in customer sentiment and unpredictable market conditions, the Group will strengthen its promotional efforts to maintain the Group's competitiveness, including the launching of new promotional menus regularly and seasonal food.

Looking ahead, the Group will constantly adjust the business strategies in response to the ever-changing economy and the food and beverage industry. The Group will continue to evaluate the overall market conditions and strike a balance between expanding the Group's restaurants and closing down underperforming restaurants in the future.

COMPARISON OF BUSINESS OBJECTIVES AND STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The Group will endeavour to achieve the following business objectives:

Business Strategy as stated in the prospectus of the Company dated 29 December 2017 (the "Prospectus")	Implementation activities up to 31 December 2019 as stated in the Prospectus	Actual business progress up to the date of this announcement
Expansion in Hong Kong with multi-brand strategy	<ul style="list-style-type: none"> To open restaurant in Hong Kong under the name of "Dragon King" and "Dragon Feast" 	<ul style="list-style-type: none"> The Kwai Chung Restaurant commenced its operation as "Dragon King" on 2 May 2018 The Wan Chai Restaurant commenced its operation as "Dragon Gown" on 15 August 2018 The Group carefully evaluated the market and delayed the expansion plan
Further enhance the Group's brand recognition	<ul style="list-style-type: none"> To advertise and promote more in conventional media channels and online platforms To engage in more marketing campaigns and other marketing activities 	<ul style="list-style-type: none"> Continue to enhance the Group's brand recognition through various media channels Ms. Alice Chan (陳煒) was appointed as the Group's spokesperson
Enhancement of existing restaurant facilities	<ul style="list-style-type: none"> To refurbish the Group's existing restaurants' fitting out and utensils To attract new and returning customer traffic 	<ul style="list-style-type: none"> The refurbishment work in the Group's restaurants continues
Repayment of bank and other borrowings	<ul style="list-style-type: none"> To repay part of our outstanding bank borrowings 	<ul style="list-style-type: none"> Early repayment of four outstanding bank borrowings amounted to HK\$3.0 million

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the issue of new shares of the Group at the time of its Listing on GEM on the Listing Date through the share offer of 360,000,000 shares of HK\$0.01 each in the share capital of the Group at the price of HK\$0.21 per share, after deduction of the underwriting commission and actual expenses paid by the Group in connection thereto, were approximately HK\$37.3 million.

As at 30 June 2020, the net proceeds from share offer were applied as follows:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2019 <i>HK\$ million</i>	Actual use of net proceeds up to 30 June 2020 <i>HK\$ million</i>	Unutilised net proceeds up to 30 June 2020 <i>HK\$ million</i>
Expansion in Hong Kong with multi-brand strategy			
– Capital expenditure, working capital and rental deposit of opening of “Dragon King” Restaurant in Kwai Chung	9.6	9.6	–
– Capital expenditure, working capital and rental deposit of opening of “Dragon Gown” Restaurant in Wan Chai	11.0	11.0	–
– Capital expenditure, working capital and rental deposit of opening of “Dragon King” Restaurant in Eastern District	6.8	–	6.8
Sub-total	27.4	20.6	6.8
Enhancement of existing restaurant facilities			
– Renovation costs for the Group’s Restaurant	4.1	4.1	–
Sub-total	4.1	4.1	–
Enhancement of marketing and promotions			
– Advertise and promote more in conventional media channels and online platforms	0.8	0.8	–
– Engage in more marketing campaigns and appointment of spokesperson	0.4	0.4	–
Sub-total	1.2	1.2	–
Repayment of bank and other borrowings	3.0	3.0	–
Working capital	1.6	1.6	–
Total	37.3	30.5	6.8

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

As at 30 June 2020, approximately HK\$30.5 million out of the net proceeds from the Listing had been used. The remaining unutilised net proceeds of approximately HK\$6.8 million were deposited in licensed banks in Hong Kong. The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly evaluate the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group. Nevertheless, given the current economic condition and social instabilities together with the Pandemic in Hong Kong subsequent to the reporting period, the Group has decided to delay the plan of opening new restaurant until the Directors consider the overall economical and political atmosphere resume and is suitable for the expansion which expected in late 2021.

CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on the Listing Date. There has been no change in the capital structure of the Group since then. The capital of the Group only comprised of ordinary shares.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has funded the liquidity and capital requirements principally from cash generated from operations and bank and other borrowings.

As at 30 June 2020, the Group had borrowings of approximately HK\$43.7 million which was denominated in Hong Kong Dollars (31 December 2019: approximately HK\$43.4 million). The Group's bank borrowings were primarily used in financing the working capital requirement of its operations.

As at 30 June 2020, the Group's cash and cash equivalents were approximately HK\$10.1 million (31 December 2019: approximately HK\$14.2 million). The Directors believe that the Group is in a healthy financial position to achieve its business objectives.

GEARING RATIO

As at 30 June 2020, the gearing ratio of the Group was approximately 96.7% (31 December 2019: approximately 92.4%). Gearing ratio is calculated as net debt divided by capital and net debt. Net debt represented total liabilities (excluding tax payable) of the Group less cash and cash equivalents. Capital represented the equity attributable to owners of the Company.

CHARGE ON GROUP ASSETS

As at 30 June 2020, the borrowings were secured by a building owned by the Group and life insurance policies amounted to approximately HK\$29.1 million (31 December 2019: approximately HK\$29.5 million) and approximately HK\$4.9 million (31 December 2019: approximately HK\$4.9 million), respectively, for certain banking facilities granted to the Group.

SEGMENT INFORMATION

The Group principally operates in one business segment, which is the operation and management of restaurants.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND PLANS FOR MATERIAL INVESTMENTS OF CAPITAL ASSETS

As disclosed in the Company's announcement dated 17 January 2020, Dragon King Holdings Limited, the direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to dispose of the entire issued share capital of Prominent Voice Limited ("**Prominent Voice**"), an indirect wholly-owned subsidiary of the Company, at a consideration of approximately HK\$2.7 million. Prominent Voice is principally engaged in operating the Sheung Shui Restaurant.

Except for the above, there was no significant investment held, material acquisition and disposal of subsidiaries and affiliated companies by the Company during the six months ended 30 June 2020. There is no other plan for material investments or capital assets as at 30 June 2020.

FOREIGN EXCHANGE EXPOSURE

Most of the income and expenditures of the Group are denominated in Hong Kong Dollars ("**HKD**") and Renminbi ("**RMB**"), which are the functional currencies of the respective group entities. Although HKD is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the year. Therefore, no significant exposure is expected on RMB transactions and balances.

The Group does not have any material foreign exchange exposure. During the six months ended 30 June 2020, the Group had not used any financial instruments for hedging purposes.

TREASURY POLICIES

The Directors will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

COMMITMENTS

As at 30 June 2020, the Group does not have any commitments (31 December 2019: Nil).

DIVIDEND

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

INFORMATION ON EMPLOYEES

As at 30 June 2020, the Group had approximately 450 employees (31 December 2019: approximately 590 employees) working in Hong Kong, Macau and Shanghai. Employees are remunerated based on their qualifications, position and performance. The remuneration offered to employees generally includes salaries, allowances and discretionary bonus. Various kind of trainings were provided to the employees. The total staff costs (including remuneration of Directors and mandatory provident funds contributions) for the six months ended 30 June 2020 amounted to approximately HK\$44.6 million (2019: approximately HK\$74.6 million).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Future Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were follow:

Long positions in ordinary shares and underlying shares of the Company

Name of Director/ chief executive	Capacity/Nature of interest	Number of shares held/ interested	Approximate percentage of shareholding
Ms. Lee Ching Nung Angel ("Ms. Lee") ^{Note 1}	Interest of spouse	578,880,000	40.20%
Mr. Wong Wing Chee ("Mr. Wong WC") ^{Note 2}	Interested in a controlled corporation	578,880,000	40.20%
Mr. Wong Wing Hong ("Mr. Wong WH") ^{Note 3}	Interested in a controlled corporation	10,800,000	0.75%

Notes:

1. Ms. Lee is the spouse of Mr. Wong WC. Under the SFO, Ms. Lee is deemed to be interested in the same number of shares of the Company in which Mr. Wong WC is interested.
2. Mr. Wong WC beneficially owns the entire issued share capital of Million Edge Developments Limited (“**Million Edge**”). Therefore, Mr. Wong WC is deemed, or taken to be, interested in all the Shares held by Million Edge for the purpose of the SFO. Mr. Wong WC is the sole director of Million Edge.
3. Mr. Wong WH beneficially owns the entire issued share capital of Wealthy Time Limited (“**Wealthy Time**”). Therefore, Mr. Wong WH is deemed, or taken to be, interested in all the shares of the Company held by Wealthy Time for the purpose of the SFO. Mr. Wong WH is the sole director of Wealthy Time.

Save as disclosed above, as at 30 June 2020, none of the Directors and Chief Executive Officer had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as known to the Directors or chief executive of the Company, as at 30 June 2020, the following persons/entities (other than the Directors and chief executive of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Long positions in ordinary shares and underlying shares of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares held/ interested	Approximate percentage of shareholding
Million Edge	Beneficial owner	578,880,000	40.20%
Good Vision Limited	Beneficial owner	237,600,000	16.50%
Hong Kong Tang Palace Food & Beverage Group Company Limited ^{Note 1}	Interested in a controlled corporation	237,600,000	16.50%
Tang Palace (China) Holdings Limited ^{Note 2}	Interested in a controlled corporation	237,600,000	16.50%
Mr. Chan Man Wai ^{Note 3}	Interested in a controlled corporation	237,600,000	16.50%
Ms. Au Yim Bing ^{Note 4}	Interest of spouse	237,600,000	16.50%
Wise Alliance Limited	Beneficial owner	108,000,000	7.50%
Mr. Lee Wing Sun ^{Note 5}	Interest in a controlled corporation	108,000,000	7.50%
Ms. Wat Hoi San ^{Note 6}	Interest of spouse	108,000,000	7.50%

Notes:

- Hong Kong Tang Palace Food & Beverage Group Company Limited (“**Tang Palace BVI**”) beneficially owns the entire issued share capital of Good Vision Limited (“**Good Vision**”). Therefore, Tang Palace BVI is deemed or taken to be interested in all the shares of the Company held by Good Vision for the purpose of the SFO. Mr. Chan Man Wai (“**Mr. Chan**”) is the sole director of Good Vision.
- Tang Palace (China) Holdings Limited (“**Tang Palace (China)**”), a company listed on the Main Board of the Stock Exchange, beneficially owns the entire issued share capital of Tang Palace BVI. Therefore, Tang Palace (China) is deemed, or taken to be, interested in all the shares of the Company in which Tang Palace BVI is interested for the purpose of the SFO.
- Mr. Chan either directly or through Best Active Investments Limited (“**Best Active**”, a company wholly-owned by him) holds a total of 33.70% of the total issued share capital of Tang Palace (China). As such, Mr. Chan controls more than one-third of the voting rights of Tang Palace (China) and is deemed to be interested in its interests in the Company by virtue of the SFO. Mr. Chan is the sole director of Best Active.

4. Ms. Au Yim Bing (“**Ms. Au**”) is the spouse of Mr. Chan. Under the SFO, Ms. Au is deemed to be interested in the same number of Shares in which Mr. Chan is interested.
5. Mr. Lee Wing Sun (“**Mr. Lee**”) beneficially owns the entire issued share capital of Wise Alliance Limited (“**Wise Alliance**”). Therefore, Mr. Lee is deemed or taken to be interested in all the shares of the Company held by Wise Alliance for the purpose of the SFO. Mr. Lee is the sole director of Wise Alliance.
6. Ms. Wat Hoi San (“**Ms. Wat**”) is the spouse of Mr. Lee. Under the SFO, Ms. Wat is deemed to be interested in the same number of shares of the Company in which Mr. Lee is interested.

Save as disclosed above, as at 30 June 2020, there was no person or corporation, other than the Directors and Chief Executive of the Company whose interests are set out in the section “Directors’ and chief executives’ interest and short positions in shares, underlying shares and debenture of the Company” above, had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company remained to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2020.

COMPETITION AND CONFLICT OF INTERESTS

Tang Palace Group (consist of Tang Palace (China) and its subsidiaries) was a restaurant chain group including restaurants in China and Hong Kong. Tang Palace (China) was interested in 16.5% interest in the Group through Good Vision. Tang Palace Group does not and will not involve in the daily operation and management of the Group. Moreover, Mr. Kwong Ping Man, the independent non-executive Director of the Company, was also an independent non-executive director of Tang Palace (China). Despite that Mr. Kwong Ping Man is a director of Tang Palace (China), he confirms that he does not involved in day-to-day operations of both Tang Palace Group’s and the Group’s restaurant business. Save as disclosed above, none of the Directors, the controlling shareholders or substantial shareholders of the Company or any of its respective close associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with Group during the six months ended 30 June 2020.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between the Group and the controlling shareholders, Mr. Wong WC and Million Edge (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the deed of non-competition (the “**Deed of Non-competition**”) with the Company (for itself and as trustee for its subsidiaries) on 15 December 2017. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and as trustee for its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall (and he/it shall procure his/its close associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantor(s) (and his/its close associates, if applicable) whether the Group will exercise the right of first refusal or not.

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Each of the covenantors also gave certain non-competition undertakings under the Deed of Non-Competition as set out in the paragraph headed “Relationship with our controlling shareholders – Non-competition undertaking” in the Prospectus.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in rules 5.48 to 5.68 of the GEM Listing Rules as the code of conduct regarding Directors’ securities transactions in securities of the Company. Based on specific enquiry with the Directors, all Directors confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance during the six months ended 30 June 2020 and up to the date of this announcement.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme (the “**Share Option Scheme**”) by the resolutions in writing of all the shareholders passed on 15 December 2017. The Share Option Scheme enables the Company to grant share options to any director, employee or other stakeholders to the Company or any of its subsidiaries, as incentives or rewards for their contributions to the Group for the purpose of attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option.

The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the adoption date (excluding, for this purpose, shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all the shares in issue. Therefore, it is expected that the Company may grant options in respect of up to 144,000,000 shares (or such numbers of shares as shall result from a sub-division or a consolidation of such 144,000,000 shares from time to time) to the participants under the Share Option Scheme.

The 10% limit as mentioned above may be refreshed at any time by approval of the shareholders in general meeting provided that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company) will not be counted for the purpose of calculating the refreshed 10% limit.

The total number of shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, the Company must send a circular to the shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted (i.e. 15 December 2017).

During the six months ended 30 June 2020, the Group did not grant any share option under the Share Option Scheme of the Company.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance adviser, Frontpage Capital Limited (the "**Compliance Adviser**"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser, none of the Compliance Adviser or its directors, employees or associates had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICE

The Board considers good corporate governance a key element in managing the business and affairs of the Group. The management of the Group periodically reviews and proposes amendments to its corporate governance practices for compliance with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. The Board is of the opinion that the Company has complied with the CG Code during the six months ended 30 June 2020 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established on 15 December 2017. The chairman of the Audit Committee is Mr. Kwong Ping Man, the independent non-executive Director, and other members include Mr. Lin Zhisheng and Mr. Chang Cheuk Cheung Terence, the independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the Stock Exchange's website and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

By order of the Board
Dragon King Group Holdings Limited
Lee Ching Nung Angel
Chairman and Executive Director

Hong Kong, 6 August 2020

As at the date of this announcement, the Board comprises Ms. Lee Ching Nung Angel, Mr. Wong Wing Chee and Mr. Wong Wing Hong as executive Directors; Mr. Kwong Ping Man, Mr. Lin Zhisheng and Mr. Chang Cheuk Cheung Terence as independent non-executive Directors.