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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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

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 Main Board. 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 of the Stock Exchange 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

Three months and nine months ended 30 September 2019

The unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2019, together with the unaudited comparative figures for the corresponding period in 2018, are as follows:

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2019	2018	2019	2018
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	96,055	100,229	311,727	308,624
Costs of inventories consumed		(30,261)	(30,933)	(98,002)	(97,414)
Gross profit		65,794	69,296	213,725	211,210
Other income and gains, net	3	304	609	1,189	1,931
Staff costs		(38,667)	(31,103)	(113,244)	(103,941)
Depreciation of items of property, plant and equipment		(4,615)	(4,696)	(13,786)	(13,144)
Loss on disposal of items of property, plant and equipment		–	–	–	(6,969)
Depreciation of right-of-use assets		(9,915)	–	(30,078)	–
Expenses from short-term leases		(3,796)	–	(11,390)	–
Rental and related expenses		(6,056)	(18,854)	(17,349)	(56,977)
Other operating expenses		(16,119)	(13,945)	(49,568)	(46,834)
Finance costs		(795)	(526)	(2,039)	(1,406)
Listing expenses		–	–	–	(4,449)
(Loss)/profit before tax	4	(13,865)	781	(22,540)	(20,579)
Income tax expenses	5	–	(480)	(825)	(1,183)
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		(13,865)	301	(23,365)	(21,762)
(Loss)/earnings per share attributable to ordinary equity holders of the Company		HK cents	HK cents	HK cents	HK cents
– Basic and diluted	7	(0.96)	0.02	(1.62)	(1.53)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Three months and nine months ended 30 September 2019

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the period	(13,865)	301	(23,365)	(21,762)
Other comprehensive (loss)/income:				
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
– Exchange differences on translating foreign operations	<u>(43)</u>	<u>58</u>	<u>(303)</u>	<u>540</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	<u>(13,908)</u>	<u>359</u>	<u>(23,668)</u>	<u>(21,222)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Nine months ended 30 September 2019

	Attributable to owners of the Company						Total equity HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profit/ loss (Accumulated) HK\$'000	
At 1 January 2018 (Audited)	-	43,224	(43,224)	42,703	193	12,145	55,041
Loss for the period	-	-	-	-	-	(21,762)	(21,762)
Other comprehensive income for the period:							
Exchange differences on translation of foreign operations	-	-	-	-	540	-	540
Total comprehensive loss for the period	-	-	-	-	540	(21,762)	(21,222)
Issue of new shares pursuant to the capitalisation	10,800	(10,800)	-	-	-	-	-
Share issued pursuant to the share offer	3,600	72,000	-	-	-	-	75,600
Share issuance costs	-	(16,367)	-	-	-	-	(16,367)
Effect of adoption of HKFRS 9	-	-	-	-	-	(2,475)	(2,475)
At 30 September 2018 (Unaudited)	<u>14,400</u>	<u>88,057</u>	<u>(43,224)</u>	<u>42,703</u>	<u>733</u>	<u>(12,092)</u>	<u>90,577</u>
At 1 January 2019 (Audited)	14,400	88,057	(43,224)	42,703	(316)	(48,397)	53,223
Loss for the period	-	-	-	-	-	(23,365)	(23,365)
Other comprehensive loss for the period:							
Exchange differences on translation of foreign operations	-	-	-	-	(303)	-	(303)
Total comprehensive loss for the period	-	-	-	-	(303)	(23,365)	(23,668)
At 30 September 2019 (Unaudited)	<u>14,400</u>	<u>88,057</u>	<u>(43,224)</u>	<u>42,703</u>	<u>(619)</u>	<u>(71,762)</u>	<u>29,555</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 8 August 2016. The registered 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 (the "**Listing**") since 16 January 2018 (the "**Listing Date**").

The Group is principally engaged in the operation and management of restaurants in Hong Kong, Macau and the 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 nine months ended 30 September 2019 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 nine months ended 30 September 2019 are consistent with those adopted in the Group's audited annual report dated 22 March 2019 (the "**2018 Annual Report**"), except for the adoption of the new and revised HKFRSs (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.

- (a) The Group has adopted the following new and revised HKFRSs for the first time for the financial period beginning on or after 1 January 2019:

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual Improvements to 2015-2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 And HKAS 23</i>

The adoption of the New and Revised HKFRSs, except for HKFRS 16, did not have any significant financial impacts on the unaudited condensed consolidation financial statements.

Impact of HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. The Group has performed an assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK\$126.0 million and lease liabilities of HK\$126.0 million were recognised at 1 January 2019.

- (b) The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated financial statements:

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale of Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

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 nine months ended 30 September 2019 have been prepared under the historical cost convention. The unaudited condensed consolidated financial statements for the nine months ended 30 September 2019 are presented in thousand of Hong Kong dollars (“**HK\$’000**”), which is also the functional currency of the Group.

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 2018.

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. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers				
Revenue operations	<u>96,055</u>	<u>100,229</u>	<u>311,727</u>	<u>308,624</u>
Revenue from contracts with customers				
<i>(i) Disaggregated revenue information</i>				
	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Type of goods or services				
Revenue from Chinese restaurant operations and total revenue from contracts with customers	<u>96,055</u>	<u>100,229</u>	<u>311,727</u>	<u>308,624</u>
Geographical markets				
Hong Kong and Macau	<u>87,271</u>	<u>90,658</u>	<u>283,191</u>	<u>277,225</u>
Mainland China	<u>8,784</u>	<u>9,571</u>	<u>28,536</u>	<u>31,399</u>
Total revenue from contracts with customers	<u>96,055</u>	<u>100,229</u>	<u>311,727</u>	<u>308,624</u>
Timing of revenue recognition				
At a point in time	<u>96,055</u>	<u>100,229</u>	<u>311,727</u>	<u>308,624</u>

(ii) **Performance obligations**

Information about the Group's performance obligations is summarised below:

Restaurant operations

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 less than one month.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other income and gains, net				
Bank interest income	83	1	86	4
Fair value gains on financial assets at fair value through profit or loss	–	120	156	486
Subsidies received from a utility company for purchases of items of property, plant and equipment*	139	146	417	435
Others	82	342	530	1,006
	<u>304</u>	<u>609</u>	<u>1,189</u>	<u>1,931</u>

* As at 30 September 2019 and 2018, there were no unfulfilled conditions or other contingencies attaching to the subsidies that had been recognized by the Group.

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

The Group's (loss)/profit before tax is arrived at after (crediting)/charging:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Minimum lease payments under operating lease	–	13,739	–	44,787
Contingent rents under operating leases*	–	264	472	710
Auditor's remuneration	200	250	800	750
Employee benefit expense (excluding directors' and chief executive's remuneration)				
Wages and salaries	35,401	27,971	102,457	94,974
Pension scheme contributions	1,646	1,665	5,134	4,968
	<u>37,047</u>	<u>29,636</u>	<u>107,591</u>	<u>99,942</u>
Foreign exchange differences, net	(9)	144	(84)	56
Loss on disposal of items of property, plant and equipment	–	–	–	6,969

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

5. 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 nine months ended 30 September 2019 and 2018, 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 16.5% on the estimated assessable profits.

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 nine months ended 30 September 2019 (2018: 25% and 12%), respectively.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current – Hong Kong	–	480	825	1,233
Deferred	–	–	–	(50)
Total tax charge for the period	<u>–</u>	<u>480</u>	<u>825</u>	<u>1,183</u>

6. DIVIDEND

The board of Directors (the “**Board**”) does not recommend any payment of dividend in respect of the nine months ended 30 September 2019 (2018: Nil).

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

For the nine months ended 30 September 2019 and 2018, the calculation of the basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The weighted average number of ordinary shares for the nine months ended 30 September 2019 is derived from 1,440,000,000 ordinary shares in issue. The weighted average number of ordinary shares for the nine months ended 30 September 2018 is calculated on the basis of 1,080,000,000 shares of the Company in issue, which represents the number of shares of the Company immediately after the reorganisation and capitalisation issue, and the 360,000,000 shares issued pursuant to the share offer of the Company for its listing on GEM of the Stock Exchange on 16 January 2018.

The Group had no potentially dilutive ordinary shares in issue during the nine months ended 30 September 2019 and 2018.

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
(Loss)/profit				
(Loss)/profit for the period				
attributable to ordinary equity				
holders of the Company (<i>HK\$'000</i>)				
	<u>(13,865)</u>	<u>301</u>	<u>(23,365)</u>	<u>(21,762)</u>
Number of shares				
Weighted average number of shares				
for the purpose of calculating basic				
(loss)/earnings per share (<i>'000</i>)				
	<u>1,440,000</u>	<u>1,440,000</u>	<u>1,440,000</u>	<u>1,420,220</u>
Basic (loss)/earnings per share				
<i>(HK cents per share)</i>				
	<u>(0.96)</u>	<u>0.02</u>	<u>(1.62)</u>	<u>(1.53)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

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

Restaurant Operations

For the nine months ended 30 September 2019, 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 September 2019, the Group had eight restaurants in Hong Kong, two of which are located on Hong Kong Island (respectively known as the “Causeway Bay Restaurant” and the “New 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 two of which are located in New Territories (respectively known as the “Sheung Shui Restaurant” and 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”).

FINANCIAL REVIEW

Revenue

For the nine months ended 30 September 2019, the Group recorded a total revenue of approximately HK\$311.7 million, representing an increase of approximately 1.0% as compared to approximately HK\$308.6 million for the nine months ended 30 September 2018.

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

	For the nine months ended 30 September			
	2019		2018	
	Revenue	% of total	Revenue	% of total
	HK\$'000	revenue	HK\$'000	revenue
		(%)		(%)
Dragon King (龍皇)	178,951	57.4%	188,987	61.2%
Dragon Seal (龍璽)	45,394	14.6%	42,350	13.7%
Dragon Gown (龍袍)	21,605	6.9%	1,841	0.6%
Imperial Seal (皇璽)	28,536	9.2%	31,339	10.2%
Dragon Feast (龍宴)	37,241	11.9%	44,107	14.3%
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	311,727	100%	308,624	100.0%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Dragon King (龍皇)

The revenue generated from Dragon King decreased by approximately HK\$10.0 million, or approximately 5.3%, from approximately HK\$189.0 million for the nine months ended 30 September 2018 to approximately HK\$179.0 million for the nine months ended 30 September 2019.

The decrease in revenue were mainly due to the decrease of revenue generated by the old restaurant located in Wan Chai under the brand name "Dragon King (龍皇)" (the "**Old Wan Chai Restaurant**") in which the lease has expired on 30 June 2018 and relocated to the New Wan Chai Restaurant which operated under the brand name of "Dragon Gown (龍袍)" in August 2018.

Dragon Seal (龍璽)

The revenue generated from Dragon Seal increased by approximately HK\$3.0 million, or approximately 7.1%, from approximately HK\$42.4 million for the nine months ended 30 September 2018 to approximately HK\$45.4 million for the nine months ended 30 September 2019. Such increase was mainly due to the increase in the number of banquet which generally had a higher spending compared to the casual dining in the first half of 2019.

Dragon Gown (龍袍)

The revenue generated from Dragon Gown increased by approximately HK\$19.8 million, or approximately 1,100%, from approximately HK\$1.8 million for the nine months ended 30 September 2018 to approximately HK\$21.6 million for the nine months ended 30 September 2019. Such increase was mainly due to full operation of the restaurant during the period ended 30 September 2019 while only two months of operation during the corresponding period in 2018.

Imperial Seal (皇璽)

The revenue generated from Imperial Seal decreased by approximately HK\$2.8 million, from approximately HK\$31.3 million for the nine months ended 30 September 2018 to approximately HK\$28.5 million for the nine months ended 30 September 2019. Such decrease was mainly due to the Sino-US trade war in the second half of 2018 which affected the consumption sentiment of customers in mainland China and the situation continued in 2019.

Dragon Feast (龍宴)

The revenue generated from Dragon Feast decreased by approximately HK\$6.9 million, or approximately 15.6%, from approximately HK\$44.1 million for the nine months ended 30 September 2018 to approximately HK\$37.2 million for the nine months ended 30 September 2019. The significant decrease was mainly due to the increase in the competition of Cantonese cuisine nearby and the refurbishment works performed during the second half of March 2019 which the restaurant did not have operation during that period.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of inventories consumed) amounted to approximately HK\$213.7 million for the nine months ended 30 September 2019, representing a slight increase of approximately 1.2% from approximately HK\$211.2 million for the nine months ended 30 September 2018, which was driven by the increase of revenue and partially offset by the increase of the costs of inventories consumed. The Group's overall gross profit margin remained at similar level for the periods ended 30 September 2019 and 2018.

Staff costs

Staff costs were approximately HK\$113.2 million for the nine months ended 30 September 2019, representing an increase of approximately 9.0% as compared to HK\$103.9 million for the nine months ended 30 September 2018. Such increase was mainly due to (i) the salary increment for employees of each restaurant; and (ii) the increase in number of staff for the Kwai Chung Restaurant which started its operation in May 2018.

Loss on disposal of items of property, plant and equipment

The loss on disposal of items of property, plant and equipment was approximately HK\$7.0 million for the nine months ended 30 September 2018. It was mainly attributed to the closure of the Old Wan Chai Restaurant which the lease has expired on 30 June 2018.

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 two to six 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\$39.7 million or approximately 69.6% from approximately HK\$57.0 million for the nine months ended 30 September 2018 to approximately HK\$17.3 million for the nine months ended 30 September 2019. Such decrease was mainly due to the classification of rental expenses as depreciation of right-of-use assets and expenses from short-term leases under HKFRS 16.

Other operating expenses

The Group's other operating expenses increased by approximately HK\$2.8 million or approximately 6.0% from approximately HK\$46.8 million for the nine months ended 30 September 2018 to approximately HK\$49.6 million for the nine months ended 30 September 2019. Such increase was mainly due to the increase in the Group's marketing and promotional expenses.

Listing expenses

Listing expenses was approximately HK\$4.4 million for the nine months ended 30 September 2018. Listing expenses incurred for the nine months ended 30 September 2018 is one-off in nature and mainly attributable to the professional fees in relation to the Listing.

(Loss)/earnings attributable to the owners of the Company

As a result of the foregoing, the Group recorded a loss attributable to the owners of the Company of approximately HK\$23.4 million for the nine months ended 30 September 2019, as compared with loss of approximately HK\$21.8 million for the nine months ended 30 September 2018.

The significant loss was mainly due to the current economic condition and social instabilities in Hong Kong which led to the loss of revenue caused by, among others, the shortening of business hours and abrupt closure of business for some shopping malls in which the Group's restaurants are located, and the reducing number of customers to dine at the Group's restaurants, especially during weekends from June onwards.

DIVIDEND

The Board does not recommend any payment of dividend for the nine months ended 30 September 2019 (2018: Nil).

PROSPECTS

The shares of the Company were listed on GEM of the Stock Exchange by way of share offer on 16 January 2018. The Directors believe that listing on GEM of the Stock Exchange could enhance the Group's profile and recognition which will enhance the customers' confidence in 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.

Consumption sentiment is likely to continue to be impacted by the Sino-US trade war and fluctuations of both property and stock markets together with the prevailing unstable social atmosphere in Hong Kong. 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, if the consumption sentiment is not improved, economy will be affected. The Group will constantly adjust the business strategies in order to respond to the changes in the respective markets. The Group will continue to evaluate the overall market conditions and strike a balance between expanding the Group's restaurants and closing underperforming restaurants in the future.

Looking forward, the Group will continue to strengthen the Group's position in the Cantonese full-service restaurant industry and further expand the business operations with a view to creating long term shareholders' value. The Group will focus on the following business strategies: (i) expansion in Hong Kong with multi-brand strategy; (ii) further enhancement of the Group's brand recognition; and (iii) enhancement of the Group's existing restaurant facilities. Details of the business strategies have been disclosed in the prospectus of the Company dated 29 December 2017 (the "**Prospectus**").

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	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 (龍皇)” on 2 May 2018 The New Wan Chai Restaurant commenced its operation as “Dragon Gown (龍袍)” 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 16 January 2018 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 September 2019, 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 September 2019 <i>HK\$ million</i>	Unutilised net proceeds up to 30 September 2019 <i>HK\$ million</i>
Expansion in Hong Kong with multi-brand strategy	27.4	20.6	6.8
Enhancement of existing restaurant facilities	4.1	4.1	–
Enhancement of marketing and promotions	1.2	1.2	–
Repayment of bank and other borrowings	3.0	3.0	–
Working capital	1.6	1.6	–
	<u>37.3</u>	<u>30.5</u>	<u>6.8</u>

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 September 2019, approximately HK\$30.5 million out of the net proceeds from the Listing had been used. The remaining unutilised net proceeds 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 in Hong Kong, the Group has decided to delay the plan of opening new restaurant until the Directors consider suitable.

OTHER INFORMATION

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

As at 30 September 2019, 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 the Securities and Futures Ordinance (“SFO”)) which were 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, were as follows:

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 ^{Note 1}	Interest of spouse	578,880,000	40.2%
Mr. Wong Wing Chee ^{Note 2}	Interested in a controlled corporation	578,880,000	40.2%
Mr. Wong Wing Hong ^{Note 3}	Interested in a controlled corporation	10,800,000	0.75%

Notes:

1. Ms. Lee Ching Nung Angel (“**Ms. Lee**”) is the spouse of Mr. Wong Wing Chee (“**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 Wing Hong (“**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 September 2019, 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 September 2019, 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 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:

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	40.2%
Good Vision Limited	Beneficial owner	237,600,000	16.5%
Hong Kong Tang Palace Food & Beverage Group Company Limited ^{Note 1}	Interested in a controlled corporation	237,600,000	16.5%
Tang Palace (China) Holdings Limited ^{Note 2}	Interested in a controlled corporation	237,600,000	16.5%
Mr. Chan Man Wai ^{Note 3}	Interested in a controlled corporation	237,600,000	16.5%
Ms. Au Yim Bing ^{Note 4}	Interest of spouse	237,600,000	16.5%

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held/ interested	Approximate percentage of shareholding
Wise Alliance Limited	Beneficial owner	108,000,000	7.5%
Mr. Lee Wing Sun ^{Note 5}	Interest in a controlled corporation	108,000,000	7.5%
Ms. Wat Hoi San ^{Note 6}	Interest of spouse	108,000,000	7.5%
Dragon Eagle King Limited	Beneficial owner	75,600,000	5.25%
Centurion Treasure Limited ^{Note 7}	Interested in a controlled corporation	75,600,000	5.25%
Mr. Wee Ho ^{Note 8}	Interested in a controlled corporation	75,600,000	5.25%
Ms. Chui Shuk Man ^{Note 9}	Interest of spouse	75,600,000	5.25%

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 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 Man Wai (“**Mr. Chan**”) either directly or through Best Active Investments Limited (“**Best Active**”, a company wholly-owned by him) holds a total of 33.84% 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.
- 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.
- 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.
- 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.

7. Centurion Treasure Limited (“**Centurion Treasure**”) beneficially owns the entire issued share capital of Dragon Eagle King Limited (“**Dragon Eagle King**”). Therefore, Centurion Treasure is deemed or taken to be interested in all the shares of the Company held by Dragon Eagle King for the purpose of the SFO. Centurion Treasure is the sole director of Dragon Eagle King.
8. Mr. Wee Ho (“**Mr. Wee**”) beneficially owns the entire issued share capital of Centurion Treasure. Therefore, Mr. Wee is deemed or taken to be interested in all the shares of the Company held by Centurion Treasure for the purpose of the SFO. Mr. Wee is the sole director of Centurion Treasure.
9. Ms. Chui Shuk Man (“**Ms. Chui**”) is the spouse of Mr. Wee. Under the SFO, Ms. Chui is deemed to be interested in the same number of shares in which Mr. Wee is interested.

Save as disclosed above, as at 30 September 2019, 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’ interests and short positions in shares, underlying shares and debentures 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 nine months ended 30 September 2019.

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 nine months ended 30 September 2019.

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 nine months ended 30 September 2019 and up to the date of this announcement.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees of the Company, the Directors and other selected participants for their contributions to the Group. The Company has conditionally adopted the Share Option Scheme on 15 December 2017. Further details of the Share Option Scheme are set in the section headed “Statutory and General Information – E. Share option scheme” in Appendix V of the Prospectus.

For the nine months ended 30 September 2019, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

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 nine months ended 30 September 2019 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 nine months ended 30 September 2019 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 nine months ended 30 September 2019 comply with applicable accounting standards and the 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, 8 November 2019

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.