



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 Report
2021

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors") of Dragon King Group Holdings Limited (the "Company" and 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 report 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 report misleading.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Three months and nine months ended 30 September 2021

The unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2021, together with the unaudited comparative figures for the corresponding period in 2020, are as follows:

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Revenue	3	64,085	40,039	175,038	146,081
Costs of inventories consumed		(22,962)	(13,015)	(59,158)	(44,316)
Gross profit		41,123	27,024	115,880	101,765
Other income and gains, net	4	476	7,974	9,328	17,853
Staff costs		(25,764)	(17,599)	(71,598)	(62,191)
Depreciation of items of property, plant and equipment		(1,289)	(3,052)	(5,045)	(9,452)
Depreciation of right-of-use assets		(4,703)	(6,478)	(15,271)	(21,001)
Loss on disposal of a subsidiary		-	-	-	(500)
Rental and related expenses		(7,136)	(3,077)	(18,553)	(12,565)
Other operating expenses		(12,244)	(7,896)	(31,134)	(26,163)
Finance costs		(998)	(1,228)	(2,923)	(3,991)
Loss before tax	5	(10,533)	(4,332)	(19,316)	(16,245)
Income tax expenses	6	-	-	-	-
Loss for the period attributable to the owners of the Company		(10,533)	(4,332)	(19,316)	(16,245)
Loss per share		HK cents	HK cents	HK cents	HK cents
- Basic and diluted	8	(0.72)	(0.30)	(1.34)	(1.13)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Three months and nine months ended 30 September 2021

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Loss for the period	(10,533)	(4,332)	(19,316)	(16,245)
Other comprehensive income/(expense):				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
– Exchange differences on translating foreign operations	15	50	314	197
Total comprehensive expense for the period	(10,518)	(4,282)	(19,002)	(16,048)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 2021

	Issued capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated loss HK\$'000	Total equity HK\$'000
At 1 January 2020 (Audited)	14,400	88,057	(43,224)	42,703	131	(83,870)	18,197
Loss for the period	-	-	-	-	-	(16,245)	(16,245)
Other comprehensive income for the period, net of income tax							
<i>Item that maybe reclassified subsequently to profit or loss:</i>							
Exchange differences arising on translation of foreign operations	-	-	-	-	197	-	197
Total comprehensive expense for the period	-	-	-	-	197	(16,245)	(16,048)
At 30 September 2020 (Unaudited)	14,400	88,057	(43,224)	42,703	328	(100,115)	2,149
At 1 January 2021 (Audited)	14,400	88,057	(43,224)	42,703	(310)	(158,629)	(57,003)
Loss for the period	-	-	-	-	-	(19,316)	(19,316)
Other comprehensive income for the period, net of income tax							
<i>Item that maybe reclassified subsequently to profit or loss:</i>							
Exchange differences arising on translation of foreign operations	-	-	-	-	314	-	314
Total comprehensive expense for the period	-	-	-	-	314	(19,316)	(19,002)
Placing of new share	2,880	3,110	-	-	-	-	5,990
Transaction costs attributable to placing of new share	-	(255)	-	-	-	-	(255)
At 30 September 2021 (Unaudited)	17,280	90,912	(43,224)	42,703	4	(177,945)	(70,270)

NOTES TO THE 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 Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at Room 501, 5/F, Office Plus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, 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 nine months ended 30 September 2021 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 2021 are consistent with those adopted in the Group's audited consolidated financial statement for the year ended 31 December 2020 as contained in the Group's 2020 audited report (the "2020 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 nine months ended 30 September 2021 and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated financial statements for the nine months ended 30 September 2021.

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 2021 have been prepared under the historical cost convention. The unaudited condensed consolidated financial statements for the nine months ended 30 September 2021 are presented in thousand of Hong Kong dollars (“HKS’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 2020.

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2021 HKS’000	2020 HK\$’000	2021 HKS’000	2020 HK\$’000
Revenue from contracts with customers				
Restaurant operations	64,085	40,039	175,038	146,081

(i) Disaggregated revenue information

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2021 HKS’000	2020 HK\$’000	2021 HKS’000	2020 HK\$’000
Type of goods or services				
Revenue from Chinese restaurant operations	64,085	40,039	175,038	146,081
Geographical markets				
Hong Kong and Macau	58,213	30,421	153,613	125,243
The PRC	5,872	9,618	21,425	20,838
Total	64,085	40,039	175,038	146,081
Timing of revenue recognition				
At a point in time	64,085	40,039	175,038	146,081

(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.

4. OTHER INCOME AND GAINS, NET

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Other income and gains, net				
Bank interest income	1	1	3	3
Fair value gains on financial assets at fair value through profit or loss	22	15	74	95
Subsidies received from a utility company for purchases of items of property, plant and equipment*	74	126	222	378
Subsidies received from government	–	7,394	4,200	16,381
Rental Concession**	320	–	4,550	–
Others	59	438	279	996
	476	7,974	9,328	17,853

* As at 30 September 2021 and 2020, there were no unfulfilled conditions or other contingencies attaching to the subsidies that had been recognised by the Group.

** During the nine months ended 30 September 2021, the Group recognised rental concession of approximately HK\$4,550,000 of which approximately HK\$1,373,000 related to COVID-19 Related Rental Concessions.

5. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Contingent rents under operating leases*	-	-	-	490
Auditor's remuneration	230	250	690	750
Employee benefit expense (excluding Directors' and chief executive's remuneration)				
Wages and salaries	22,966	15,920	63,594	55,644
Pension scheme contributions	1,149	495	3,042	2,540
	24,115	16,415	66,636	58,184

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

6. INCOME TAX EXPENSES

For the nine months ended 30 September 2021 and 2020, 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%.

The 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 2021 (2020: 25% and 12%), respectively.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Current – Hong Kong	-	-	-	-
Total tax charge for the period	-	-	-	-

7. DIVIDEND

The board of Directors (the “Board”) does not recommend any payment of dividend in respect of the nine months ended 30 September 2021 (2020: Nil).

8. LOSS PER SHARE

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 September		Unaudited Nine months ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	(10,533)	(4,332)	(19,316)	(16,245)
	Number of shares		Number of shares	
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	1,460,255	1,440,000	1,446,776	1,440,000
Basic loss per share (HK cents per share)	(0.72)	(0.36)	(1.34)	(1.13)

No diluted earnings per share for the nine months ended 30 September 2020 and 2019 were presented as there were no potential ordinary shares in issue for the nine months ended 30 September 2021 and 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

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

RESTAURANT OPERATIONS

For the nine months ended 30 September 2021, the Group operated eight 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)” and “Imperial Seal (皇璽)”. 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. In late September 2021, the Group closed down its Kwai Chung restaurant. As at 30 September 2021, the Group had six 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**”), and 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**”). In early October 2021, the Group closed down its Macau restaurant which is located in the Venetian Macao (known as the “**Macau Restaurant**”). In late September 2021, the Group closed down its Shanghai restaurant which is located in Pudong New District (known as the “**Shanghai Restaurant**”). In early January 2022, the Group closed down the ICC Restaurant due to the end of rental agreement.

For the nine months ended 30 September 2021, the food and beverage industry gradually recovered from the outbreak of COVID-19. In the first nine months of 2021, the Group’s restaurants recorded an increase in revenue due to the effective control of the spread of COVID-19 in Hong Kong, Macau and the PRC.

FINANCIAL REVIEW

Revenue

For the nine months ended 30 September 2021, the Group recorded a total revenue of approximately HK\$175.0 million, representing an increase of approximately HK\$28.9 million or approximately 19.8% as compared to approximately HK\$146.1 million for the nine months ended 30 September 2020.

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			
	2021		2020	
	Revenue	% of total revenue	Revenue	% of total revenue
	HK\$'000	(%)	HK\$'000	(%)
Dragon King (龍皇)	108,798	62.2%	90,917	62.2%
Dragon Seal (龍璽)	26,250	15.0%	17,815	12.2%
Dragon Gown (龍袍)	18,565	10.6%	13,581	9.3%
Imperial Seal (皇璽)	21,425	12.2%	20,838	14.3%
Dragon Feast (龍宴) *	-	-	2,930	2.0%
Total revenue	175,038	100.0%	146,081	100.0%

* Disposed of on 17 January 2020

Dragon King (龍皇)

The revenue generated from Dragon King increased by approximately HK\$17.9 million, or approximately 19.7%, from approximately HK\$90.9 million for the nine months ended 30 September 2020 to approximately HK\$108.8 million for the nine months ended 30 September 2021.

The increase in revenue was mainly due to relaxation of anti-epidemic precautionary measures in Hong Kong during the period, and the improved consumer sentiment due to the consumption voucher scheme launched by Hong Kong Government. However, these positive factors were partially offset by the new consumer pattern resulted from the epidemic, as more people now prefers to dine at home. In addition, consumer sentiment in Hong Kong was adversely affected by the stock market downturn since the second half of 2021. Despite the increase in revenue, the Dragon King restaurants in Kwai Chung and Macau continued to make loss due to the new consumer pattern resulted from the epidemic and the decrease of tourists due to travel restrictions. The Management decided to close down the Dragon King restaurants in Kwai Chung and Macau in late September and early October 2021, respectively. In early January 2022, the Group closed down the ICC Restaurant due to the end of rental agreement.

Dragon Seal (龍璽)

The revenue generated from Dragon Seal significantly increased by approximately HK\$8.5 million, or approximately 47.3%, from approximately HK\$17.8 million for the nine months ended 30 September 2020 to approximately HK\$26.3 million for the nine months ended 30 September 2021. Such increase was mainly due to the relaxation of the anti-epidemic precautionary measures in Hong Kong during the period.

Dragon Gown (龍袍)

The revenue generated from Dragon Gown significantly increased by approximately HK\$5.0 million, or approximately 36.7%, from approximately HK\$13.6 million for the nine months ended 30 September 2020 to approximately HK\$18.6 million for the nine months ended 30 September 2021. Such increase was mainly due to the relaxation of the anti-epidemic precautionary measures in Hong Kong during the period.

Imperial Seal (皇璽)

The revenue generated from the Imperial Seal Restaurant in Shanghai slightly increased by approximately HK\$0.6 million, or approximately 2.9%, from approximately HK\$20.8 million for the nine months ended 30 September 2020 to approximately HK\$21.4 million for the nine months ended 30 September 2021. Such increase was mainly due to the effective control of COVID-19 in the PRC. Despite the increase in revenue, the restaurant continued to make loss due to the new consumer pattern resulted from the epidemic and the decrease of tourists due to travel restrictions. The Management decided to close down the Imperial Seal Restaurant in Shanghai in late September 2021.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of inventories consumed) amounted to approximately HK\$115.9 million for the nine months ended 30 September 2021, representing an increase of approximately HK\$14.1 million or approximately 13.9% from approximately HK\$101.8 million for the nine months ended 30 September 2020 driven by the increase in revenue.

The Group's overall gross profit margin slightly decreased by approximately 3.5% from approximately 69.7% for the nine months ended 30 September 2020 to approximately 66.2% for the nine months ended 30 September 2021. Such decrease was mainly due to more promotional menu being provided to customers during the period.

Other income and gains, net

Other income and gains, net significantly decreased by approximately HK\$8.5 million from approximately HK\$17.9 million for the nine months ended 30 September 2020 to approximately HK\$9.3 million for the nine months ended 30 September 2021. Such decrease were mainly due to the one-off subsidies amounted to approximately HK\$4.2 million received from the Employment Support Scheme from the HKSAR Government under the Anti-epidemic Fund in the comparative period, which did not recur during the nine months ended 30 September 2021.

Staff costs

Staff costs was approximately HK\$71.6 million for the nine months ended 30 September 2021, representing a significant increase of approximately HK\$9.4 million or approximately 15.1% as compared to HK\$62.2 million for the nine months ended 30 September 2020. Such increase was mainly due to the unpaid leave agreed to be taken by Directors, senior management members and employees of the Group from February 2020 to September 2020, which did not recur in the current period in 2021 due to gradual recovery from COVID-19.

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 significantly increased by approximately HK\$6.0 million or approximately 47.6% from approximately HK\$12.6 million for the nine months ended 30 September 2020 to approximately HK\$18.5 million for the nine months ended 30 September 2021. Such increase was mainly due to the waiver by landlord of certain short-term lease payment, management fees and promotion, which did not recur in the current period in 2021 due to gradual recovery from COVID-19.

Other operating expenses

The Group's other operating expenses increased by approximately HK\$4.9 million or approximately 19% from approximately HK\$26.2 million for the nine months ended 30 September 2020 to approximately HK\$31.1 million for the nine months ended 30 September 2021. Such increase was mainly due to the further resources allocated to promotional and marketing activities to attract more customers to dine in again when COVID-19 gradually recovered in 2021.

Loss attributable to owners of the Company

For the nine months ended 30 September 2021, the Group recorded a loss attributable to owners of the Company of approximately HK\$19.3 million, as compared with loss of approximately HK\$16.2 million for the nine months ended 30 September 2020. The increase in the loss attributable to owners of the Company was mainly due to the non-recurrence of Government subsidies, landlord waivers and unpaid staff leave during the period.

DIVIDEND

The Board does not recommend any payment of dividend for the nine months ended 30 September 2021 (2020: Nil).

PROSPECTS

In view of the stock market downturn since the second half of 2021 accompanied by the outbreak of Omicron variant of COVID-19 globally, the Group will continue to adopt a conservative and cautious approach to operate its business. The food and beverage industry is having a difficult time, caused by the stock market downturn in Hong Kong, the reduction in number of tourists, the new consumer pattern of reduced dining-out, and the anti-epidemic precautionary measures including restrictions on catering business premises imposed by the HKSAR Government. The combined effect of the factors are posing challenges to the Group's business.

The staff costs and food costs remained high. While the Company had endeavoured to adopt cost control measures, it does not intend to do so to such extent as would affect the food and service quality. Another major cost component for the Group is the rental expenses. The Group was in negotiation with the landlords for rent concessions.

The Group has plans to set up an online sales platform to promote the Group's packaged foods. The purpose of development of online sales business is to mitigate the operational and financial risks faced by the Group as a result of COVID-19 and the new consumer pattern.

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 businesses and reviewing the position regarding the underperforming restaurants from time to time.

OTHER INFORMATION

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

As at 30 September 2021, none of the Directors and chief executive 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

As at 30 September 2021, 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.

LITIGATION

On 6 September 2021, the Company and its subsidiary, King Harbour Limited, received demand letters from a bank regarding facilities drawn in the outstanding principal of HK\$3 million plus accrued interest. The Company is obtaining advice on this matter.

In October and November 2021, the Company received writs of summons issued by Frontpage Capital Limited, Blooming (HK) Business Limited and CFN Lawyers claiming for the sums of HK\$1,600,000, HK\$533,200, HK\$466,000 and other remedies based on alleged advisory fee. The Company is taking advice on these matters.

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 2021.

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 incumbent Directors, All the incumbent 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 2021 and up to the date of this report.

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 2021, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

SUBSEQUENT EVENTS

Reference is made to the Company's announcement dated 22 December 2021. On 15 December 2021, officers of law enforcement bodies including Hong Kong Police Force (the "**Police**") visited the Group's offices to execute search warrants for certain investigation of suspected offences relating to alleged money laundering and other allegations (the "**Investigation**"), during which certain documents, electronic devices and computer records were seized. Further, the Company was informed that Mr. Chan Ko Cheung ("**Mr. Chan**"), the chairman, chief executive officer and executive Director of the Company, was arrested by the Police for Investigation on 15 December 2021, and was subsequently released on bail without any charge laid against him.

Up to now, the Company only possesses limited information in relation to the Investigation. Based on the limited information available, the Board is not currently aware of any matters which suggest that the Investigation may be directly related to the principal business activities, operations and assets of the Group, or that the business operations and the financial position of the Group may be materially and adversely impacted by the Investigation.

It has come to the Company's knowledge that some bank accounts of the Group were frozen. Following clarifications and explanations, some bank accounts of the Group's operating subsidiaries were subsequently restored for bank acceptance and payment by customers for the conducting of the Group's ordinary restaurant business.

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 2021 and up to the date of this report.

Following the resignation of Ms. Leung Hoi Ki on 9 November 2021 as independent non-executive Director, the number of independent non-executive directors on the Board and the members of the Audit Committee are less than three as required under Rules 5.05(1) and 5.28 of the GEM Listing Rules.

The Board is now taken active step to identify suitable candidate to fill up the vacancy in order to comply with the requirement under GEM Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Company has been established in accordance with the GEM Listing Rules. With the resignation of Ms. Leung Hoi Ki on 9 November 2021, the Audit Committee has fallen below the minimum number of three members and failed to fulfill the requirement of having at least one member with appropriate qualifications or accounting or relevant financial management expertise.

The Audit Committee has reviewed with the management this quarterly report, including the unaudited consolidated results of the Group for the nine months ended 30 September 2021, prior to recommending them to the Board for approval. The consolidated results of the Group for the nine months ended 30 September 2021 have not been audited by the auditors of the Company.

By order of the Board
Dragon King Group Holdings Limited
Chan Ko Cheung
*Chairman, Chief Executive Officer &
Executive Director*

Hong Kong, 28 January 2022

As at the date of this report, the Board comprises Mr. Chan Ko Cheung (Chairman & Chief Executive Officer) and Ms. Shen Taiju as executive Directors; and Mr. Lee Yiu Keung and Mr. Wang Jingan as independent non-executive Directors.