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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 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Dragon King Group Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) announces the unaudited consolidated interim results for the six months ended 30 June 2023. This announcement, containing the full text of the 2023 interim report (the “**2023 Interim Report**”) of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) in relation to the information to accompany preliminary announcement of interim results. The printed version of the 2023 Interim Report will be despatched to the shareholders of the Company and available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.dragonkinggroup.com in due course in the manner as required by the GEM Listing Rules.

By order of the Board
Dragon King Group Holdings Limited
Shen Taiju
Executive Director

Hong Kong, 14 August 2023

As at the date of this announcement, the Board comprises Ms. Shen Taiju (Chairman), Ms. Au Yeung Lok Yee and Mr. Jia Yongqiang as executive Directors; Mr. Tang Hong Jiang as non-executive Director; and Mr. Buer Gude, Mr. Chui Chi Yun Robert and Mr. Mtafi Rachid Rene as independent non-executive Directors.

This announcement, for which the Directors 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 of Hong Kong Limited 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 “Latest Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the day of its publication and on the website of the Company.

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 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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The Board of the Company is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2023, together with the unaudited comparative figures for the corresponding period in 2022, are as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June 2023

	Notes	Unaudited		Unaudited	
		Three months ended 30 June		Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
REVENUE	5	23,182	22,448	54,325	35,895
Costs of inventories consumed		(6,532)	(6,510)	(14,658)	(11,339)
Gross profit		16,650	15,938	39,667	24,556
Other income and gains, net	6	179	2,994	182	4,826
Staff costs		(9,945)	(10,642)	(19,706)	(19,165)
Depreciation of property, plant and equipment		(199)	(199)	(398)	(398)
Gain on disposal of a subsidiary	15	–	–	–	12,628
Impairment losses of right-of-use assets		–	(8,600)	–	(9,350)
Rental and related expenses		(2,270)	(4,333)	(4,663)	(6,308)
Other operating expenses		(4,432)	(4,009)	(8,708)	(8,028)
Finance costs		(868)	(615)	(1,728)	(1,872)
(Loss) Profit before tax	7	(885)	(9,466)	4,646	(3,111)
Income tax expenses	8	–	–	–	–
(Loss) Profit for the period attributable to the owners of the Company		(885)	(9,466)	4,646	(3,111)
(Loss) Earnings per share		HK cents	HK cents	HK cents	HK cents
– Basic and diluted	10	(0.51)	(5.48)	2.69	(1.80)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2023

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) Profit for the period	(885)	(9,466)	4,646	(3,111)
Other comprehensive income:				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
– Release of exchange fluctuation reserve upon disposal of a subsidiary	–	–	–	273
Total comprehensive (expense) income for the period	(885)	(9,466)	4,646	(2,838)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	26,699	27,097
Right-of-use assets		–	–
Prepayments, deposits and other receivables		2,698	3,403
Deferred tax assets		2,944	3,229
Total non-current assets		32,341	33,729
CURRENT ASSETS			
Inventories		3,510	3,572
Trade receivables	12	537	596
Prepayments, deposits and other receivables		11,784	12,255
Tax recoverable		630	344
Bank balances and cash		2,422	4,881
Total current assets		18,883	21,648
CURRENT LIABILITIES			
Bank overdrafts		204	–
Trade payables	13	36,078	36,820
Other payables and accruals		41,007	43,787
Bank and other borrowings		58,900	60,771
Lease liabilities		7,394	8,231
Amount due to a director		6,019	7,589
Tax payable		444	444
Total current liabilities		150,046	157,642
NET CURRENT LIABILITIES		(131,163)	(135,994)
TOTAL ASSETS LESS CURRENT LIABILITIES		(98,822)	(102,265)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Note		
NON-CURRENT LIABILITIES		
Other borrowings	2,000	–
Other payables and accruals	1,048	1,048
Lease liabilities	636	3,839
Total non-current liabilities	3,684	4,887
NET LIABILITIES	(102,506)	(107,152)
CAPITAL AND RESERVES		
Share capital	17,280	17,280
Reserves	(119,786)	(124,432)
TOTAL DEFICIENCY IN EQUITY	(102,506)	(107,152)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	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 deficiency in equity HK\$'000
At 1 January 2022	17,280	90,912	(43,224)	42,703	(424)	(209,395)	(102,148)
Loss for the period	-	-	-	-	-	(3,111)	(3,111)
Other comprehensive income for the period, net of income tax							
<i>Item that may be reclassified subsequently to profit or loss:</i>							
Release of exchange fluctuation reserve upon disposal of a subsidiary	-	-	-	-	273	-	273
Total comprehensive income (expense) for the period	-	-	-	-	273	(3,111)	(2,838)
At 30 June 2022 (Unaudited)	17,280	90,912	(43,224)	42,703	(151)	(212,506)	(104,986)
At 1 January 2023	17,280	90,912	(43,224)	42,703	(133)	(214,690)	(107,152)
Profit for the period	-	-	-	-	-	4,646	4,646
At 30 June 2023 (Unaudited)	17,280	90,912	(43,224)	42,703	(133)	(210,044)	(102,506)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
NET CASH FROM OPERATING ACTIVITIES	4,816	4,880
INVESTING ACTIVITIES		
Interest received	1	1
Proceeds from withdrawal of a life insurance policy	–	2,332
Net cash outflow on disposal of a subsidiary	–	(18)
NET CASH GENERATED FROM INVESTING ACTIVITIES	1	2,315
FINANCING ACTIVITIES		
Inceptions of other borrowings	2,000	–
Repayment of bank borrowings	(3,871)	(3,972)
Payment of lease liabilities	(4,039)	(5,426)
(Repayment to) Advance from a director	(1,570)	4,079
NET CASH USED IN FINANCING ACTIVITIES	(7,480)	(5,319)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,663)	1,876
Cash and cash equivalents at the beginning of the period	4,881	6,332
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD,		
represented by bank balances and cash and bank overdrafts	2,218	8,208

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 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 was located at 16/F., Tern Centre Two, 251 Queen's Road Central, Hong Kong and changed to Unit C, 11/F., King Yip Factory Building, 59 King Yip Street, Kwun Tong, Kowloon, Hong Kong on 1 March 2023. 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.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2023 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 2023 are consistent with those adopted in the Group's audited annual report dated 22 May 2023 (the "2022 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 2023 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 2023.

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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared under the historical cost convention. The unaudited condensed consolidated financial statements for the six months ended 30 June 2023 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 2023, due to the recovery from the adverse impact of COVID-19 pandemic, the Group reported profit for the period attributable to owners of the Company of approximately HK\$4,646,000. In addition, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$131,163,000 and the Group had net liabilities by approximately HK\$102,506,000. As at the same date, the Group’s total current borrowings amounted to approximately HK\$58,900,000, while its cash and cash equivalents amounted to approximately HK\$2,422,000 only.

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 current interest-bearing bank and other borrowings of HK\$58,900,000 as at 30 June 2023, of which approximately HK\$27,984,000 is repayable within one year. The remaining interest-bearing bank and other borrowings, amounting to approximately HK\$30,916,000 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 of the Company, the Group will be able to roll over or refinance the bank borrowings upon their maturity;
- (ii) management has been reviewing and shortening the reporting intervals and improving follow up measures on receivable collection;
- (iii) management has been considering other financing arrangements with a view to increasing the Group’s capitalisation/equity;
- (iv) management has been implementing stronger measures aiming at improving the liquidity and financial position of the Group, including but not limited to closely monitoring the operating costs;
- (v) the director, Ms. Shen, has agreed not to call for principal amounted to approximately HK\$6,019,000, until the Group is in a financial position to do so; and

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- (vi) as announced on 27 June 2023, the Company has conditionally agreed to allot and issue 34,560,000 new shares at the price of HK\$0.10 per new share to a creditor of the Group under the general mandate granted to the Directors at the Company's annual general meeting held on 31 October 2022 by capitalisation of the debt due to the said creditor (the "**Debt Capitalisation**"). Upon fulfilment of all the conditions precedent to completion, completion of the Debt Capitalisation took place on 3 July 2023. The Debt Capitalisation helped to reduce the Company's gearing ratio and improve the financial position 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 2022.

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 2022.

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 2022.

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 2022.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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

(i) **Disaggregated revenue information from contracts with customers**

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Type of goods or services				
Revenue from Chinese restaurant operations	23,182	22,448	54,325	35,895
Geographical markets				
Hong Kong	23,182	22,448	54,325	35,895
Timing of revenue recognition				
At a point in time	23,182	22,448	54,325	35,895

(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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER INCOME AND GAINS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other income and gains, net				
Bank interest income	1	-	1	1
Fair value gains on financial assets at fair value through profit or loss	-	276	-	276
Exchange gain	4	-	4	-
Government grant (Note)	-	2,676	-	4,476
Others	174	42	177	73
	179	2,994	182	4,826

Note:

During the six months ended 30 June 2023, the Group has no government grants income (30 June 2022: approximately HK\$4,476,000) in respect of COVID-19-related subsidies, of which Nil (30 June 2022: approximately HK\$1,276,000) relates to the Employment Support Scheme, Nil (30 June 2022: approximately HK\$3,200,000) related to the Anti-epidemic fund of the Hong Kong Government, which were included in other income and gains, net. The Group has complied all attached conditions for the six months ended 30 June 2023.

7. (LOSS) PROFIT FOR THE PERIOD

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

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration	375	300	750	600
Employee benefit expense (excluding directors' and chief executive's remuneration)				
Wages and salaries	9,305	9,833	18,458	17,604
Pension scheme contributions	416	410	811	779
	9,721	10,243	19,269	18,383

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2023 and 2022, 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%.

Hong Kong Profits Tax has not been provided as the Group’s estimated assessable profits for the periods are wholly absorbed by unrelieved tax losses brought forward from previous years for the period.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at two-tiered profits tax regime of the estimated assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits for the year. The maximum tax rate is 12% for both periods.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current – Hong Kong	-	-	-	-
Total tax charge for the periods	-	-	-	-

9. DIVIDEND

The Board does not recommend any payment of interim dividend in respect of the six months ended 30 June 2023 (2022: Nil).

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. (LOSS) EARNINGS PER SHARE

The calculations of basic and diluted (loss) earnings 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	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
(Loss) Profit attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	(885)	(9,466)	4,646	(3,111)
	Number of shares			
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share	172,800	172,800	172,800	172,800

No diluted (loss) earnings per share for the six months ended 30 June 2023 and 2022 were presented as there were no potential ordinary shares in issue for the six months ended 30 June 2023 and 2022.

11. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2023, no purchases of property, plant and equipment was made by the Group (2022: Nil).

12. TRADE RECEIVABLES

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Contracts with customers	537	596

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2023 HK\$'000	Audited 31 December 2022 HK\$'000
0-30 days	382	428
Over 180 days	155	168
	537	596

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 2023 HK\$'000	Audited 31 December 2022 HK\$'000
0-30 days	1,069	1,077
31-60 days	592	281
61-90 days	327	425
Over 90 days	34,090	35,037
	36,078	36,820

14. SHARE CAPITAL

	Nominal value HK\$	Number of shares	HK\$'000
Authorised			
At 31 December 2022, 1 January 2023 and 30 June 2023	0.1	500,000,000	50,000
Issued and fully paid			
At 31 December 2022, 1 January 2023 and 30 June 2023		172,800,000	17,280

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. GAIN ON DISPOSAL OF A SUBSIDIARY

On 4 January 2022, the Group disposed of its 100% equity interests of Dragon Seal Shanghai at nil consideration to two independent third parties. The net liabilities of Dragon Seal Shanghai at the date of disposal were as follows:

	HK\$'000
Analysis of assets and liabilities over which control was lost:	
Prepayment, deposits and other receivables	150
Bank balances and cash	18
Trade payables	(2,572)
Other payables and accruals	(3,730)
Lease liabilities	(6,767)
	<hr/>
Net liabilities disposed of	(12,901)
	<hr/>
Gain on disposal of a subsidiary:	
Consideration received	–
Net liabilities disposed of	12,901
Release of exchange fluctuation reserve upon disposal of subsidiaries	(273)
	<hr/>
Gain on disposal	12,628
	<hr/>
Net cash outflow arising on disposal:	
Cash consideration	–
Less: bank balances and cash disposed of	(18)
	<hr/>
	(18)
	<hr/>

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. 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	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Salaries, allowances and benefits in kind	220	390	429	763
Pension scheme contributions	5	9	9	18
	225	399	438	781

17. EVENT AFTER THE REPORTING PERIOD

On 27 June 2023, the Company and the Creditor have agreed to settle the partial indebted sum of approximately HK\$3,456,000 by way of allotment and issue of a total of 34,560,000 capitalisation shares at the price of HK\$0.1 per share to the Creditor. On 3 July 2023, the Company issued and allotted an aggregate of 34,560,000 shares to the Creditor.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

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

Restaurant Operations

For the six months ended 30 June 2023 (the “**Period**”), the Group operated three full-service restaurants in Hong Kong to provide Cantonese cuisine under the brand names of “**Dragon King (龍皇)**” and “**Dragon Gown (龍袍)**” respectively, which are strategically located in prominent commercial areas, residential areas or shopping complexes.

The Group is committed to provide high quality food and services as well as comfortable dining environment to the customers. As at 30 June 2023, the Group operated three restaurants in Hong Kong, one of which located on Hong Kong Island (known as the “**Wan Chai Restaurant**”) and the remaining two of which located in Kowloon (known as the “**Kwun Tong Restaurant**” and the “**Whampoa Restaurant**” respectively).

Following the relaxation of the COVID policies and lifting of anti-epidemic measures imposed by the Hong Kong government, including removing of mass testing and central quarantine requirements, as well as the full opening of boarders in the beginning of 2023, the overall business environment and consumer sentiments in Hong Kong have improved and thus, the catering and beverage industry has gradually picked up the rebound momentum. Driven by the resumption of normal services of the Group’s restaurants, revenue for the Period improved subsequently. The Group was able to deliver operating profit by taking proactive cost structure measures which helped to improve operating leverage and profit margins.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2023, the Group recorded a total revenue of approximately HK\$54.3 million, representing an increase of approximately HK\$18.4 million or approximately 51.3% as compared to approximately HK\$35.9 million for the six months ended 30 June 2022 (the "Preceding Period").

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			
	2023		2022	
	Revenue HK\$'000	% of total revenue (%)	Revenue HK\$'000	% of total revenue (%)
Dragon King (龍皇)	35,295	65.0%	26,629	74.2%
Dragon Seal (龍璽)*	–	–	1,027	2.9%
Dragon Gown (龍袍)	19,030	35.0%	8,239	22.9%
Total revenue	54,325	100.0%	35,895	100.0%

* Closed in January 2022.

Dragon King (龍皇)

The revenue generated from Dragon King increased by approximately HK\$8.7 million, or approximately 32.7%, from approximately HK\$26.6 million for the six months ended 30 June 2022 to approximately HK\$35.3 million for the six months ended 30 June 2023. The considerable increase in revenue for the Period was mainly resulted from the improved consumer spending and relief of austerity measures as well as full resumption of the Group's restaurant operations as compared with the fragile operating environment and weakened market sentiments during the Preceding Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Dragon Seal (龍璽)

No revenue was generated by Dragon Seal for the six months ended 30 June 2023 as compared to approximately HK\$1.0 million for the six months ended 30 June 2022, which was due to the closure of the ICC Restaurant (operated under the brand name of “**Dragon Seal**”) in early January 2022 upon the expiry of its rental agreement.

Dragon Gown (龍袍)

The revenue generated from Dragon Gown increased by approximately HK\$10.8 million, or approximately 131.7%, from approximately HK\$8.2 million for the six months ended 30 June 2022 to approximately HK\$19.0 million for the six months ended 30 June 2023. Such increase was mainly due to the improvement of consumer sentiments and uplift of austerity measures as well as full resumption of the Group’s restaurant operations during the Period.

Gross profit and gross profit margin

Given the growth in revenue for the Period, the Group’s gross profit (i.e. revenue minus cost of inventories consumed) amounted to approximately HK\$39.7 million for the six months ended 30 June 2023, representing an improvement of approximately HK\$15.1 million or approximately 61.4% versus approximately HK\$24.6 million for the six months ended 30 June 2022. The Group’s overall gross profit margin slightly increased by 4.7% for the six months ended 30 June 2023 when compared to the Preceding Period which was mainly due to the operation efficiency improvement and implementation of cost control measures.

Other income and gains, net

Other income and gains, net decreased by approximately HK\$4.6 million or approximately 95.8% from approximately HK\$4.8 million for the six months ended 30 June 2022 to approximately HK\$0.2 million for the six months ended 30 June 2023. Such decrease was primarily due to the non-recurrence of the government grants and subsidies for the six months ended 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Staff costs

Staff costs amounted to approximately HK\$19.7 million for the six months ended 30 June 2023, representing an increase of approximately HK\$0.5 million or approximately 2.6% as compared to approximately HK\$19.2 million for the six months ended 30 June 2022. Such increase was attributable to the full operations of all three restaurants operated by the Group for the six months ended 30 June 2023, whilst for the six months ended 30 June 2022, certain of the Group's restaurants were temporarily closed down due to the anti-epidemic precautionary measures and restrictions for dine-in as imposed by the Hong Kong government.

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\$1.6 million or approximately 25.4% from approximately HK\$6.3 million for the six months ended 30 June 2022 to approximately HK\$4.7 million for the six months ended 30 June 2023. Such decrease was mainly due to the reduction in the number of restaurants operated by the Group in the first half of 2023 as compared to those operated in the first half of 2022.

Other operating expenses

The Group's other operating expenses increased by approximately HK\$0.7 million or approximately 8.8% from approximately HK\$8.0 million for the six months ended 30 June 2022 to approximately HK\$8.7 million for the six months ended 30 June 2023. Such increase was mainly due to the inflationary impacts and soaring interest rates during the first half of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to owners of the Company

For the six months ended 30 June 2023, the Group recorded a profit attributable to owners of the Company of approximately HK\$4.6 million, as compared with a loss of approximately HK\$3.1 million for the six months ended 30 June 2022. Such improvement was mainly due to the increase in revenue achieved by the Group during the Period.

PROSPECTS

During the fourth quarter of 2022, there were substantial changes in COVID policies and anti-pandemic measures in Hong Kong, with the relief of austerity measures and full resumption of the Group's restaurant operations and full opening of the boarders during the Period, the Group had responded swiftly to relocating resources to its remaining restaurants to capture the growth momentum whilst implementing various measures to streamline its operations with a view to improving the operating efficiency and reducing the costs.

Against the backdrop of improving market sentiments and overall economy, the Group's management is cautiously optimistic about the business environment for catering and beverage industry in the second half of 2023. The Group is committed to its business of restaurant operations and will accelerate the pace of new openings for smaller scale of operations across multiple cuisine to diversify its existing restaurant portfolio if the market conditions allow. Our management will also keep on monitoring and adjusting nimbly the Group's operating strategies to address the consumer needs, capture holiday spending and regain growth in revenue. We will continue to stay agile through evolving market conditions and strengthen our competitive edges to drive for long term growth and enhance shareholders' value of the Group.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2023, the Group had borrowings of approximately HK\$60.9 million which was denominated in Hong Kong Dollars (31 December 2022: approximately HK\$60.8 million). The Group's bank borrowings were primarily used in financing the working capital requirement of its operations. As at 30 June 2023, the Group's cash and cash equivalents were approximately HK\$2.2 million (31 December 2022: approximately HK\$4.9 million). The Directors believed that the liquidity of the Group will be further improved after the rebound of the overall economy after the pandemic.

GEARING RATIO

As at 30 June 2023, the gearing ratio of the Group was approximately 312.0% (31 December 2022: approximately 314.1%). 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 2023, the borrowings were secured by a building owned by the Group amounted to approximately HK\$26.7 million (31 December 2022: approximately HK\$27.1 million) 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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

There were no significant investments held, material acquisitions and disposals of subsidiaries and affiliated companies by the Company nor plans for material investments of capital assets during the six months ended 30 June 2023.

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 2023, 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 2023 (31 December 2022: Nil).

COMMITMENTS

As at 30 June 2023, the Group did not have any commitments (31 December 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2023 (2022: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group had a workforce of approximately 120 employees. Total staff cost for the six months ended 30 June 2023 amounted to approximately HK\$19.7 million. The emolument policy of the employees of the Group is formulated by the remuneration committee of the Company (“Remuneration Committee”) with reference to the duties, responsibilities, experience and competence of individual employees. The same policy also applies to the Directors. In addition to salaries and discretionary bonuses relating to the performance of the Group, employee benefits included pension scheme contributions. The emoluments of the Directors are reviewed annually by the Remuneration Committee. As incentives and rewards for their contributions to the Group, the employees of the Group and all the Directors (including the independent non-executive Directors) may also be granted share options by the Company from time to time pursuant to the share option scheme of the Company adopted on 15 December 2017. The Group provides various training to its employees to enhance their technical skills and knowledge relevant to the employees’ responsibilities. The Group also provides its employees with quality control standards and work safety standards training to enhance their safety awareness.

COMPETING INTERESTS

None of the Directors, the controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any business or interest which competed or might compete with the business of the Group nor had any other conflict of interests with the Group for the six months ended 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

The Company has conditionally adopted 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this interim report, there are no significant events affecting the Group which have occurred after the six months ended 30 June 2023 and up to the date of this interim report.

LITIGATION

Small Claims Tribunal of the Hong Kong Special Administrative Region

SCTC024108/22 and SCTC024109/22

Mass Effort Limited (“**Mass Effort**”), as defendant an indirect wholly-owned subsidiary of the Company engaged in restaurant operations, received small claim tribunal notices both dated 17 August 2022 in respect of outstanding rates and promotion levy in an aggregate amount of HK\$111,000 from Evermax Development Limited (“**Evermax**”).

Evermax has withdrawn the claims in respect of SCTC024108/22 and SCTC024109/22.

SCTC033210/22

The Company, as defendant, received small claim tribunal notice on 13 March 2023 in respect of PR and marketing project from Corplink Consultant Company Limited (“**Corplink**”). Corplink is seeking for an aggregate amount of HK\$12,000, being the balance of the project payment, from the Company. This case has been closed after the hearing in respect of the said claim held in June 2023 and a payment of HK\$7,000 to Corplink.

Labour Tribunal

LBTC91/2023, LBTC94/2023, LBTC184/2023 and LBTC217/2023

On 9 February 2023, 14 February 2023 and 20 February 2023, Mass Effort were ordered by the Labour Tribunal to pay the claimants in the amounts of approximately HK\$125,000, HK\$107,000, HK\$31,000 and HK\$182,000 in respect of LBTC91/2023, LBTC94/2023, LBTC184/2023 and LBTC217/2023 respectively. Mass Effort has arranged for such payments accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Magistrates' Court of the Hong Kong Special Administrative Region

WKS 8132/2023 ("WKS 8132/2023 Summon") and WKS 8133/2023 ("WKS 8133/2023 Summon")

The Company, as defendant, received letters of summons both dated 29 May 2023. The WKS 8132/2023 Summon relates to the Company failing to deliver to the Registrar of Companies a Return in the specified form reporting the cessation of Mr. Lo Chu Wing as authorized representative. The WKS 8133/2023 Summon relates to the Company failing to deliver to the Registrar of Companies a Return in the specified form reporting the new address of the principal place of business in Hong Kong.

On 29 June 2023, the Magistrates' Court ordered the Company to pay a fine amounting to HK\$36,000.

As at the date of this interim report, full payment of the fine has been made by the Company.

District Court of the Hong Kong Special Administrative Region

DCCJ4551/2021

The Company, as defendant, received a writ of summons dated 24 September 2021 and issued by Blooming (HK) Business Limited ("**Blooming**") as plaintiff ("**DCCJ4551 Writ**"). The DCCJ4551 Writ relates to a claim by Blooming in respect of an outstanding contractual sum payable by the Company. The orders sought by Blooming against the Company under the DCCJ4551 Writ are (i) the sum of HK\$453,200; (ii) interest thereon; and (iii) costs.

On 19 January 2022, a final judgment was made against the Company, whereby the Company shall repay Blooming HK\$453,200 and interest thereon as well as costs.

MANAGEMENT DISCUSSION AND ANALYSIS

DCCJ4705/2021

The Company, as defendant, received a writ of summons dated 8 October 2021 and issued by Frontpage Capital Limited (“**Frontpage**”) as plaintiff (“**DCCJ4705 Writ**”). The DCCJ4705 Writ relates to a claim by Frontpage in respect of an outstanding contractual sum payable by the Company. The orders sought by Frontpage against the Company under the DCCJ4705 Writ are (i) the sum of HK\$1,500,000; (ii) interest thereon; and (iii) costs.

On 19 January 2022, a final judgment was made against the Company, whereby the Company shall pay Frontpage the sum of HK\$1,500,000 and interest thereon as well as costs.

DCCJ5268/2021

The Company, as defendant, received a writ of summons dated 16 November 2021 and issued by CFN Lawyers (“**CFN**”) as plaintiff (“**DCCJ5268 Writ**”). The DCCJ5268 Writ relates to a claim by CFN in respect of an outstanding contractual sum payable by the Company. The orders sought by CFN against the Company under the DCCJ5268 Writ are (i) the sum of HK\$366,000; (ii) interest thereon; and (iii) costs. On 8 February 2022, a final judgment was made against the Company, whereby the Company shall repay CFN a sum of HK\$366,000 and interest thereon as well as costs. In respect of DCCJ4551/2021, DCCJ4705/2021 and DCCJ5268/2021, an aggregate amount of HK\$400,000 has been repaid for the 3 cases so far.

DCCJ460/2022

On 11 May 2022, a final judgment was made against Dragon King Restaurant Group Limited (“**DKRGL**”), as defendant and an indirect wholly-owned subsidiary of the Company, whereby DKRGL shall repay Wan Kin Engineering Limited a sum of HK\$334,000 and interest thereon as well as costs.

MANAGEMENT DISCUSSION AND ANALYSIS

DCCJ838/2022

On 22 March 2022, Oriental Etrade Limited (“**Oriental**”), as defendant and a wholly-owned subsidiary of the Company, received a writ of summons issued by Lawrence Chan & Co. (“**LCC**”) as plaintiff (“**DCCJ838 Writ**”). The DCCJ838 Writ relates to a claim by LCC in respect of a dishonored cheque drawn by Oriental in favour of LCC. The orders sought by LCC against Oriental under the DCCJ838 Writ are (i) the sum of HK\$2,000,000; (ii) interest thereon; and (iii) costs. On 11 May 2022, a final judgment was made against Oriental, whereby Oriental shall repay LCC a sum of HK\$2,000,000 and interest thereon as well as costs.

DCCJ1225/2022

As disclosed in the 2021 third quarterly report of the Company published on 28 January 2022, on 6 September 2021, the Company’s indirect wholly-owned subsidiary, King Harbour Limited (“**King Harbour**”), received a demand letter from the legal representative of the Bank of Communications (Hong Kong) Limited (“**BOCOM**”) regarding outstanding principal and accrued interests of a loan.

On 11 May 2022, King Harbour and the Company, as the two defendants, each received a writ of summons issued by BOCOM as plaintiff (“**DCCJ1225 Writ**”). The orders sought by BOCOM against King Harbour and the Company under the DCCJ1225 Writ are (i) outstanding principal and default interest of the loan in the aggregate amount of HK\$2,117,469.59; (ii) interest on the amount; (iii) further and/or other relief; and (iv) costs. The Company has filed an acknowledgment of service indicating that the Company intends to contest the proceedings. This case, after the Company’s further negotiation with BOCOM, has been closed.

MANAGEMENT DISCUSSION AND ANALYSIS

DCCJ2845/2022

King Harbour, as defendant, received a writ of summons dated 26 July 2022 and issued by Sinogain Food And Oil Limited (“**Sinogain**”) as plaintiff (“**DCCJ2845 Writ**”). The DCCJ2845 Writ relates to a claim by the plaintiff in respect of payment of delivered goods. The orders sought by Sinogain against King Harbour under the DCCJ2845 Writ are (i) the sum of HK\$177,996; (ii) interest thereon; and (iii) costs. King Harbour filed an acknowledgment of service indicating that it intended to contest the proceedings. After further negotiation with payments by King Harbour with Sinogain, this case has been closed.

High Court of the Hong Kong Special Administrative Region

HCA457/2022

On 4 May 2022, Premier Oriental Limited (“**Premier**”), as defendant and a wholly-owned subsidiary of the Company, received an amended writ of summons issued by WKE as plaintiff (“**HCA457 Writ**”). The HCA457 Writ relates to a claim by WKE in respect of a contract sum for certain decoration and renovation work undertaken at Dragon Gown (龍袍), the Group’s restaurant in Wanchai, Hong Kong. Premier filed a defence to contest the proceedings and reached a settlement with WKE subsequently by end of April 2023.

HCA1557/2022

On 25 November 2022, King Harbour received an amended writ of summons issued by Unigrade International Limited (“**Unigrade**”) as plaintiff (“**HCA1557/2022 Writ**”). The HCA1557/2022 Writ relates to a claim by Unigrade in respect of rent and rates and management fees for the Group’s restaurant in Kwun Tong, Hong Kong. In March 2023, the representing solicitors for King Harbour has put forward the settlement proposal to Unigrade for consideration. Ongoing negotiation has been taken place between the parties with a view in reaching an amicable and speedy settlement.

The Company will make further disclosure as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2023, none of the Directors and chief executives of the Company 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 Securities and Future Ordinance (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 June 2023, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, no person (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Reference is made to the announcements of the Company dated 27 June 2023 and 3 July 2023 in respect of the issue of new shares by the Company under general mandate for debt capitalisation.

MANAGEMENT DISCUSSION AND ANALYSIS

On 27 June 2023, the Company and the Creditor have agreed to settle the partial indebted sum of approximately HK\$3,456,000 by way of allotment and issue of a total of 34,560,000 capitalisation shares at the price of HK\$0.1 per Share to the Creditor. On 3 July 2023, the Company issued and allotted an aggregate of 34,560,000 Shares to the Creditor.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Period and up to the date of this report.

NON-COMPLIANCE WITH THE GEM LISTING RULES

Following Mr. Wong Luen Tung resigned as an independent non-executive Director on 27 January 2023, the Company only has two independent non-executive Directors and two members of the Audit Committee which falls below the minimum as required under Rules 5.05(1) and 5.28 of the GEM Listing Rules. Further, the Company has failed to comply with the requirement of having at least one independent non-executive Director in the Board and Audit Committee with appropriate professional qualifications or accounting or related financial management expertise under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

Following Dr. Chung Ling Cheong Dicky (“**Dr. Chung**”) resigned as an independent non-executive Director on 28 February 2023, the Company only has one independent non-executive Director and one member at the Audit Committee which falls below the minimum as required under Rules 5.05(1) and 5.28 of the GEM Listing Rules. Further, the Company has failed to comply with the requirement of having at least one independent non-executive Director in the Board and Audit Committee with appropriate professional qualifications or accounting or related financial management expertise under Rules 5.05(2) and 5.28 of the GEM Listing Rules. Also, pursuant to Rule 5.34 of the GEM Listing Rules, the remuneration committee must be chaired by an independent non-executive director and comprise a majority of independent non-executive directors and Rule 5.36A of the GEM Listing Rules, the nomination committee must comprise a majority of independent non-executive directors. In addition, a listed issuer is required to have independent nonexecutive directors representing at least one-third of the board of directors pursuant to Rule 5.05A of the GEM Listing Rules. Upon the resignation of Dr. Chung, the number of independent non-executive directors fell below one-third of the Board members as required under Rule 5.05A of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the appointment of Mr. Chui Chi Yun Robert and Mr. Buer Gude on 5 May 2023, the Company had complied with the requirements under Rules 5.05(1), 5.05(2), 5.05A, 5.28, 5.34 and 5.36A of the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in rules 5.48 to 5.67 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 2023.

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 Part 2 of 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 2023.

AUDIT COMMITTEE

The Audit Committee was established on 15 December 2017. The Chairman of the Audit Committee is Mr. Chui Chi Yun Robert (appointed on 5 May 2023) and Mr. Wong Luen Tung (resigned on 27 January 2023), the independent non-executive Director, and other members include Dr. Chung Ling Cheong Dicky (resigned on 28 February 2022), Mr. Buer Gude (appointed on 5 May 2023) and Mr. Mtafi Rachid Rene, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed under the heading of “Non-compliance with the GEM Listing Rules”, 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 2023 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 2023 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
Shen Taiju
Chairman

Hong Kong, 14 August 2023

As at the date of this report, the Board comprises Ms. Shen Taiju (Chairman), Ms. Au Yeung Lok Yee and Mr. Jia Yongqiang as executive Directors; Mr. Tang Hong Jiang as non-executive Director; and Mr. Buer Gude, Mr. Chui Chi Yun Robert and Mr. Mtafi Rachid Rene as independent non-executive Directors.