

LEVEL 7 ASSESSMENT SPECIFICATION

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Executive Summary

Chinese Cantonese restaurant business in Hong Kong is always highly competitive and has potential growth. Nevertheless, the impact of COVID-19, given a negative financial impact on the industry. Especially for the new investor. In this case study company – Dragon King Group Holdings Limited, is a listed company since 2018. Although the company's total asset turnover demonstrated that the company profitability level is above industry average, the company revenue also indicated a significant decline during the pandemic period in 2020. Moreover, the company's gearing ratio is indicated 145% in 2020, showing that the company is located in bankruptcy. Therefore, the management has reserved a budget for developing an online business plan, intentionally boosting the sales of food products and reducing the dependence on restaurant operating income. Hence, after evaluating the project to operate for five years, all the financial ratios and index indicate the paid back period is two years and two months. Thus, the suggestion given the management may proceed with the project and provided a recommendation to minimize all the potential risk for corporate governance.

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1. Introduction

1.1 Company Background

Dragon King Group Holding Limited operates ten Cantonese restaurants in Hong Kong, Macau and Shanghai, and in China in 2020. Back in 2004, the Dragon King founder Mr. Wong Wing Chee (黃永熾) and Mr. Wong Wing Hong (黃永康) opened the first restaurant, named the Yau Ma Tei Restaurant, under the brand "Dragon King (龍皇)." From 2007 to 2011, Mr. Wong WC often participated in many T.V. programmes in Hong Kong.

There a total of five self-owned brands are operated in Hong Kong. There are as follow; "Dragon King (龍皇)," "Dragon Seal (龍璽)," "Dragon Gown (龍袍)," "Imperial Seal (皇璽)" and "Dragon Feast (龍宴)." In January 2020, the restaurant under the brand name "Dragon Feast (龍宴)" was located in well-known commercial districts, residential areas, or shopping centers.

The group is positioned in the middle-class market by providing high-quality food and services to potential customers (Dragon King Group Holdings Limited, 2021).

1.2 IPO History and Market Capitalization

The Dragon King has successfully having listed on the Stock Exchange Hong Kong on 16 January 2018. The group stock code: 8493. Back to the initial phase, the company was incorporated on 8 August 2016 with an initial authorized share capital of HK\$380,000 divided into 38,000,000 shares of par value of HK\$0.01 each. In 2018, the company's share were listed on GEM in HKEX, and 360,000,000 ordinary shares were issued at HK\$0.21 per share on 16 January 2018 in connection with the listing of the Company on GEM (Dragon King Group Holdings Limited, 2019). In 31 December 2018, the Dragon King stock price at HK\$1.26 authorized share capital of an issued number of shares 1,440,000,000 shares, the market value of approximately HK\$ 2,333 million (Yahoo Hong Kong financial network, 2021), (Dragon King Group Holdings Limited, 2019). Up to the Year 2020 as 31 December. Dragon King stock price at HK\$ 0.63 authorized share capital of an issued number of shares 1,440,000,000 shares. The market value of approximately HK\$907 million (Yahoo Hong Kong financial network, 2021) (Dragon King Group Holdings Limited, 2021). The deduction of market value in the Year 2020 compared to the Year 2018 is about 2.57 times.

1.3 Business Overview

The company mainly income coming from operating restaurant operations, the majority of the restaurants are located in Hong Kong. As of 31 December 2020, the group had seven restaurants in Hong Kong (Dragon King Group Holdings Limited, 2021). The company intends to put the restaurants allocated in prominent commercial areas, residential areas, or shopping complexes to reach the company market segment.

For the years ended 31 December 2020, 2019, and 2018, the group's revenue amounted to approximately HK\$ 196,038,000, HK\$402,320,000, and HK\$415,033,000 (Dragon King Group Holdings Limited, 2021,2020)

The revenue of Dragon King is majority proportion coming from Hong Kong and Macau. The following table sets out the breakdown of the group revenue from the restaurant operation by brand and region during the Track Record Period.

	For the year ended 31 December					
	2020		2019		2018	
	Revenue HK\$'000	% of total revenue %	Revenue HK\$'000	% of total revenue %	Revenue HK\$'000	% of total revenue %
Dragon King (龍皇)	122,234	62.4%	229,627	57.1%	251,725	60.7%
Dragon Seal (龍璽)	24,099	12.3%	57,883	14.4%	60,382	14.5%
Dragon Gown (龍袍)	17,788	9.1%	28,401	7.1%	7,412	1.8%
Imperial Seal (皇璽)	29,359	15.0%	36,205	9.0%	39,170	9.4%
Dragon Feast (龍宴) *	2,558	1.2%	50,204	12.4%	56,344	13.6%
Total revenue	196,038	100.0%	402,320	100.0%	415,033	100.0%

Table 1.1: Revenue breakdown by brand

Source: (Dragon King Group Holdings Limited, 2021,2020)

	For the year ended 31 December		
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000
Hong Kong and Macau	166,679	366,115	375,863
The PRC	29,359	36,205	39,170
	196,038	402,320	415,033

Table 1.2: Revenue breakdown by region

Source: (Dragon King Group Holdings Limited, 2021,2020)

1.4 Business Recent Impact

For the year ended 31 December 2020. The outbreak of COVID-19 has hit the overall food and beverage industry in Hong Kong. Like any other F&B listed company, Dragon King faces a challenging business environment due to this unpredictable financial disaster. In the first half of the year, the outbreak of COVID-19 spread in China. Thus, the operation of the Shanghai Restaurant was suspended from late January 2020 to early March 2020 (Dragon King Group Holdings Limited, 2021).

However, due to the high staff cost and food cost relatively high despite the current economic downturn, consumers are not willing to consume in the restaurant because of the social-distance restriction by the government in Hong Kong.

Consequently, the company's revenue significantly decreased by approximately 51.3%, from HK\$402.3 million for the year ended 31 December 2019 to about HK\$196.0 million for the year ended 31 December 2020. The significant decline is mainly due to the COVID-19 outbreak since January 2020 (Dragon King Group Holdings Limited, 2020, 2021).

During the year ended 31 December 2020, Dragon King restructuring lease concessions of approximately HK\$14,382,000, of which approximately HK\$4,530,000 related to COVID-19 related rent concessions, by Anti-epidemic fund of Hong Kong Government as well as Macau Government.

1.5 Industry Review

Chinese Cantonese full-service restaurant industry has been highly competitive and has high potential growth. According to the research result, the revenue of the restaurant industry in Hong Kong experienced growth from HK\$ 16,812.9 million in 2011 to HK\$ 17,461.7 million in 2016, representing a CAGR of approximately 0.8%. During the forecast period from 2017 to 2020, the estimated revenues of the Cantonese restaurant industry are expected to increase at a CAGR of approximately 2.4%.

(IPSOS, 2016)

However, due to the COVID-19 impact, The total revenue of the catering industry in the first quarter of 2021 was US\$19.7 billion, a year-on-year decrease of 8.8%. During the same period, the provisional estimate of the total purchase value of restaurants fell by 8.0% to 6.4 billion (Census and Statistics Department, 2021a).

HK\$ million	2020		2019		2018	
	Receipts	Year Change%	Receipts	Year Change%	Receipts	Year Change%
Q 1	8,068	- 39.6%	13,385	-0.6%	13,438	+ 10.9%
Q 2	8,195	-31.7%	11,957	-2.1%	12,229	+ 4.3%
Q 3	5,740	-46.6%	10,741	-17.8%	13,079	+ 4.8%
Q 4	6,968	-35.4%	10,819	-19.2%	13,396	-0.8%
Total	28,963		46,902		52,142	
	-					
Total Year-on-Year change %	-38.2%		-10%		+ 4.77 %	

Table 1.3.: Comparison of Chinese restaurant receipts in Hong Kong during 2018 to 2020.

Source: (Census and Statistics Department, 2018, 2019, 2020) (Census and Statistics Department, 2021b)

Table 1.3 indicates that the Chinese restaurant business environment is going downward at the end of the fourth quarter of 2018. The situation is getting worse throughout the whole year in 2019 due to the social problem leading to mass protests and violent conflict in June of 2019.

The overall receipts decremental significantly in the third quarter of 2019. Since then, the whole industry has not been able to generate sufficient revenue. And the business environment is even going worst, especially when the COVID-19 pandemic hit Hong Kong at the end of the fourth quarter of 2019, given the negative impact on the whole F&B industry in Hong Kong and carry on the following year in 2020. The most significant difference in year Change percentage of the first quarter of the Year 2020 compared to the Year 2018 is -50.5%. The deduction of the Total Year on Year change percentage in the Year 2020 compared to the Year 2018 is about eight times negative.

1.6 Other Competitors

For this study, there are two companies will be used for comparison. The Fulum Group Limited (stock no.1443), and the Tao Heung Holding Limited (stock no. 0573). The above two companies have the exact nature of business and target the same market segmentation with Dragon King Group Holding Limited. In this way, these companies service quality and food products are very close to each other (*see table 1.4*) for more information. Hence, their financial structure will be at the equal condition.

Company Name (Stock Number)	Dragon King (龍皇) (1443)	Tao Heung (稻香) (0573)	Fulum (富臨) (8493)
Business Nature	Chinese Cantonese Cuisine Restaurant Chain		
Number of Restaurant	10	94	71
Market area	Hong Kong, Mainland China, Macau	Hong Kong, Mainland China	Hong Kong, Mainland China
Annual Revenue (HK\$000)	196,038	2,388,477	1,853,918

Note 1: Data as at 31 December 2020

Table 1.4.: Comparison of two competitors in the market

Source: (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

2 Financial Analysis

In this chapter will be a focus on the Dragon King's financial performance from a different perspective. Because throughout the analysis, the finding result can provide a clear understanding to identify the company current financial problem. Hence, the management can use it as a reference to help make the right decision to improve the company financial performance in the future.

2.1 Financial Structure

Company Name	Dragon King				Tao Heung	Fulum
Year	In average for 3 year	2020	2019	2018	In average for 3 years (2018 – 2020)	
Fixed Asset to Long term Liability Ratio	1.43	-0.66	3.48	1.48	0.57	0.28
Current Liabilities to New Asset Ratio	-0.19	-4.70	1.64	2.48	0.35	0.46
Current Liabilities to Stock Ratio	16.73	22.28	15.54	12.36	4.50	3.97

Table 2.1.: Comparison of Current to Long term Liability related Ratios

Source: (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

Fixed Asset to Long term Liability Ratio

This ratio can indicate the company's financial capability in terms of how much fixed assets that company has to cover its long-term liability (Warren, Reeve and Duchac, 2016). Therefore, if the ratio number is higher, meaning is better, but with a low number, the fixed asset may not cover the debt. In this case, Dragon King fixed asset to long liability ratio increases between the Year 2018 and Year 2019. However, due to the liabilities increased in the Year 2020. Therefore the ratio is also deceased.

Current Liabilities to Net Asset Ratio

This ratio can indicate the relation between short-term creditors and owners to the company's capital, a higher number, meaning there will be significant pressure on future cash flows. It is hard to obtain long-term funds by the business (Thukaram, 2007). In this case of Dragon King, the ratio number has significantly decreased in the Year 2020. It implies that the company's current net assets are less than its current liabilities. Dragon King will need to increase assets to be able to cover the short-term debt.

Current Liabilities to Stock Ratio

This ratio is used to evaluate a company's financial leverage and is calculated by dividing total liabilities by its shareholder equity. This ratio is an important metric used in corporate finance. When the debt-to-equity ratio is too high, this signals that the company may be in financial trouble and unable to repay its debts. But if it is too low, it indicates that the company relies too much on equity to finance the business, which may be costly and inefficient. The extremely low debt-to-equity ratio exposes the company to the risk of leveraged buyouts (Tracy, 2012). In 2020, this ratio indicated a relatively high ratio of previous years and the highest compared to industry in 3 years on average. Therefore, Dragon king's business capability might not produce enough money to repay its debts.

2.2 Paying Debt Ability (Liquidity and Solvency Analysis)

Company Name	Dragon King				Tao Heung	Fulum
Year	In average for 3 year	2020	2019	2018	In average for 3 years (2018 – 2020)	
Current Ratio	0.50	0.30	0.52	0.71	1.32	2.52
Quick Ratio	0.44	0.25	0.45	0.63	1.10	2.25
Cash Ratio	1.04	0.20	0.39	0.45	1.02	2.05
Long Term Debt Ratio	1.55%	-0.67%	4.01%	1.32%	N/A	0.03%
Total Debt Ratio	102%	141%	93%	73%	40%	39%

Table 2.2.: Comparison of Liquidity and Solvency Ratios

Source: From this research

(Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

Liquidity Analysis

The liquidity ratio of a company can explain whether it will pay its current liabilities or obligations. If the company can be strong in terms of solvency, allowing the company to have enough cash or assets to meet the short-term liabilities. Two commonly used liquidity ratios are the current ratio and the quick ratio (Beenhakker, 1996).

Current Ratio

Current ratio is a financial ratio used to measure whether a company has enough resources to repay its debts in the short term. Compare and measure the company's current assets and current liabilities. If the number is less than one, it is implied that the company is technically insolvent (Booker, 2006).

Dragon King's current ratio indicates lower than a period year, and other competitors average. Because the current company liabilities increased while the current asset was decreased, prepayment and other receivables decreased by approximately 49.8%, from HK\$ 48.5 million the Year 2019 to HK\$ 24.2 million the Year 2020 (Dragon King Group Holdings Limited, 2020). And the company also borrowed from the bank approximately from HK\$ 43,423 million the Year 2019 to HK\$ 76,448 million the Year 2020, increased by 1.76 times. These are considered as the primary factor leading ratio indicated in low level.

Quick Ratio

This ratio is to show whether the company can use the current asset to cover the short-term liabilities without inventory (Rist, Pizzica and LLC, 2014)

Similar to the current ratio, because the current liabilities bigger than current assets since 2018 caused the ratio number to be less than one and below the competitors average. These current and quick ratios indicated that Dragon King does not have sufficient current assets to cover the short-term liabilities either with or without selling inventory.

Cash Ratio

Cash ratio is another ratio that uses only cash in the numerator to help estimate its ability to pay off its short-term debt (Bragg, 2003). In review Dragon King cash ratio, the number decremental over last two years, indicated 0.45 in 2018 down to 0.20 in 2020, mainly because the company cash decreased while the liabilities increased since in the Year 2018. But the average ratio is similar to the industrial level.

Solvency Analysis

The purpose of doing solvency ratio is to examine the company's ability to meet its long-term debts and obligations (Fess and Warren, 1993).

Total Debt Ratio

This ratio refers to the ratio of a company's total debt to its total capital and guarantees the company's ability to repay its debts. Therefore, the creditor can confirm the debt-to-asset ratio to investigate the guarantee level of the company's funds against liabilities. And it is compared with similar companies in the same industry, of the same scale (Bragg, 2003). According to this ratio for Dragon King, the total equity has significantly deduced compared to the Year 2019 to the Year 2020. The average of this ratio is indicated significantly higher than competitor approximately 2.55 times. Management needs to either reduce debt or increase total equity to reduce the debt ratio percentage and prevent the company going bankrupt.

2.3 Gearing Ratio

Gearing ratio is also known as Financial Leverage, is a measurement of a firm financial leverage, this ratio is conventionally expressed as the amount of total funding (Bull, 2008). A high gearing ratio means the company has a larger proportion of debt versus equity. Conversely, a low gearing ratio means the company has a small proportion of debt versus equity. In review the Dragon King and other competitors show as below figure.

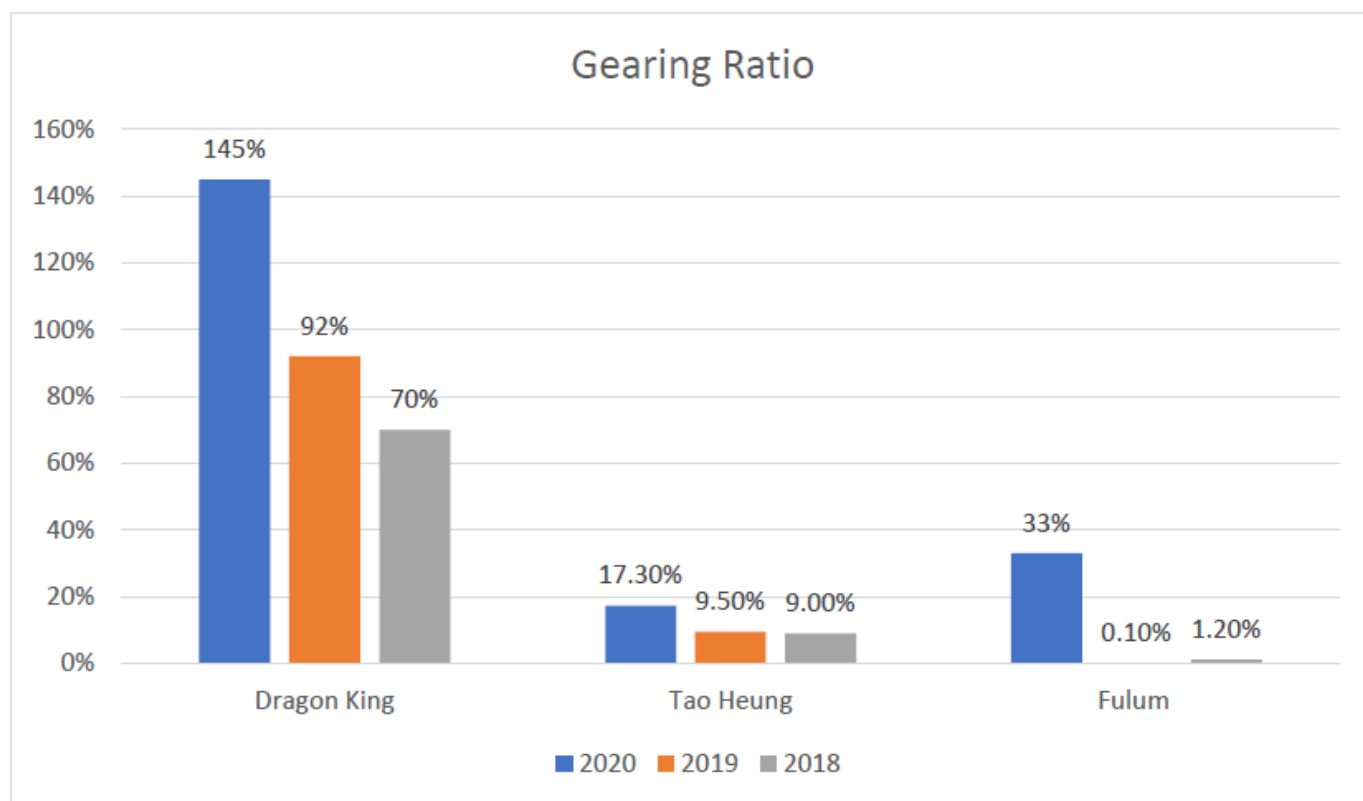


Figure 2.1.: Comparison of Gearing ratio

Source: (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

In figure 1.1 illustrated that compared with other competitors, Dragon King is generally considered to be highly levered or geared. Therefore, the company will face greater financial risks. Due to lower profits and higher interest rates, the company will be more prone to loan defaults and bankruptcies.

2.4 Inventory and Receivable Ratio

It refers to the ratio that indicates how many times the average inventory balance has been used. Therefore, the company's operating costs to the average inventory balance in a certain period of time. It can reflect the inventory turnover speed, and see whether the inventory liquidity and the amount of inventory funds are reasonable. (Blokdyk, 2020).

Company Name	Dragon King				Tao Heung	Fulum
Year	In average for 3 year	2020	2019	2018	In average for 3 years (2018 – 2020)	
Inventory Turnover	10.54	7.67	12.14	11.82	19.65	9.56
Day's Sales in Inventory	36.3	48	30	31	19.3	39.6
Receivables Turnover	97.05	82.79	153.32	55.05	92.23	152.44
Average Collection Period	4.3	4	2	7	4	2.7

Table 2.3: Comparison of Inventory and Receivable Ratio

Source: Constructed by Autor

For the restaurant business, the more ingredient the restaurant is using, the higher turnover should be as the company's primary business, which is operating Chinese restaurants. The inventory of major items included many fresh products. Dragon King inventory turnover in average is considered mediocre compared with industry (Dragon King Group Holdings Limited, 2020).

Similar to Day's Sales in Inventory, the Dragon King indicates 36.3 days, meaning it takes approximately 36.3 days to sell the inventory, which is also considered similar to the industry average (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020).

For the receivable ratios, the number shows that Dragon King is doing fine in collecting its account owed by their customers or clients compared with the industry.

2.5 Profitability Measures

Profitability is one of the most significant parameters to measure the financial performance of any business. Thus, profitability is the primary goal of all business ventures. No business can survive in the long run without profitability (Broms and Johnson, 2014).

Total Asset Turnover

The total asset turnover rate is the ratio of the company's net sales income to the average total assets in a certain period of time. In order to indicate how efficiently using firm asset to generate sales. Otherwise, the ratio will be relatively low (Gallagher and Andrew, 2007)

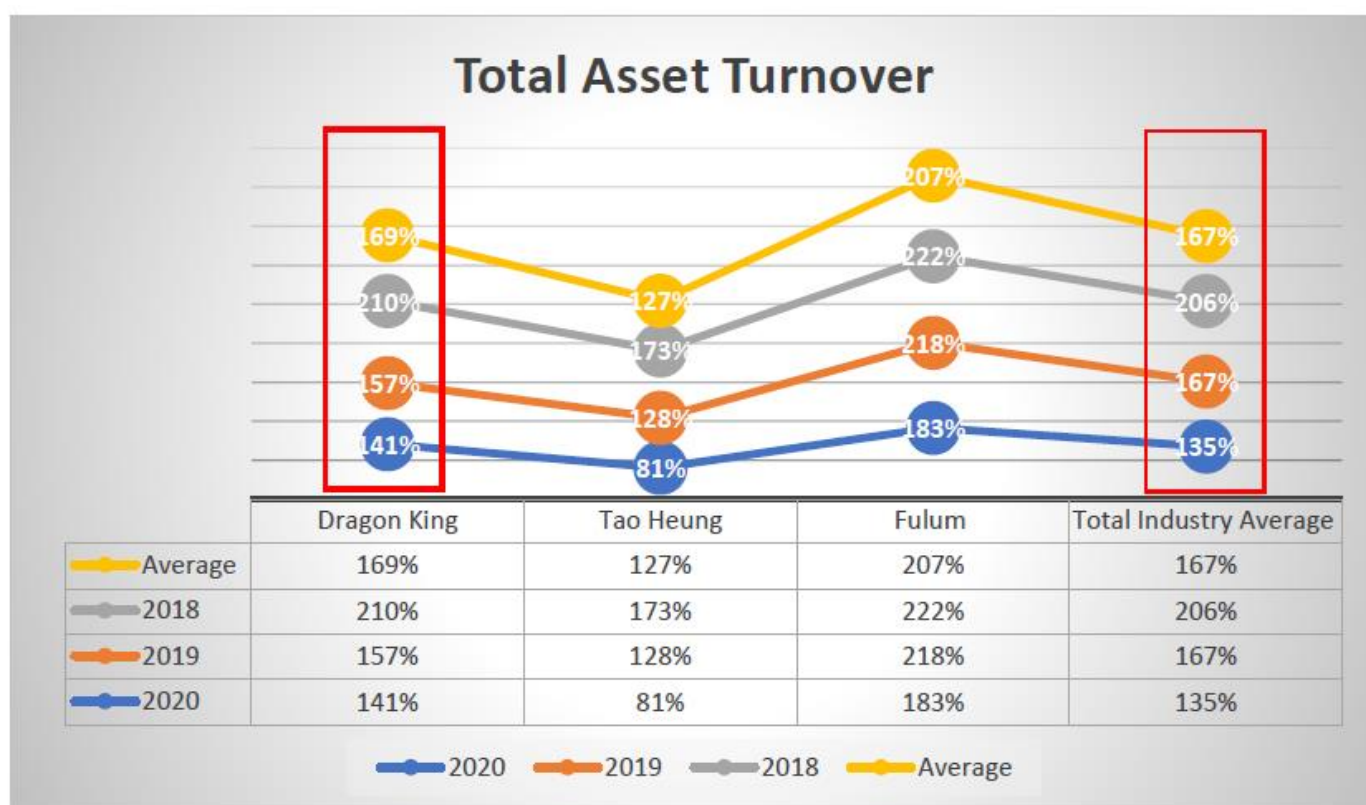


Figure 2.2.: Comparison of Total Asset Turnover

Source: Constructed by Autor

In figure 1.2 indicate the overall total asset turnover performance for Dragon King is considered as same as the average of industry in general. However, during the COVID-19 impact to the F&B industry in 2020, the entire restaurant from above companies' sales decreased that caused the overall total asset decline from the period year (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020).

Company Name	Dragon King				Tao Heung	Fulum
Year	In average for 3 year	2020	2019	2018	In average for 3 years (2018 – 2020)	
Gross Profit Margin	68.6%	69%	69%	68%	8.3%	68.3%
Net Profit Margin	-20.3%	-38%	-9%	-14%	1.3%	-32%
Return on Assets	-32.3%	-54%	-14%	-29%	7%	-58%
Return on Equity	-57.6%	131%	-195%	-109%	11%	-215%
Year	2020				2020	2020
Revenue (HK’000)	196,038				2,388,477	1,853,918
Cost of Inventories Sold	61,060				2,356,715	642,780
Margin (Revenue / Cost of Inventories Sold)	3.2 times				1.0 times	2.88 times

Table 2.4: Comparison of Profitability Measures

Source: (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

In table 2.4 indicate the Gross Profit Margin for Dragon King is the highest than other two companies.

Because their margin between revenue and cost of inventories sold is 3.2 times, but other companies are 1.0 and 2.88. Thus, Dragon King has the biggest Gross Profit leading to the result of highest Gross Profit Margin percentage.

For Net Profit Margin, the company income after-tax indicated loss since 2018. Mainly because the staff cost account for 44.6% in the Year 2020, the result caused the average to indicate the negative margin

For ROA, it is evident that Dragon King has too many assets while the net income after tax is too low.

There, per unit of asset is not effectively create net profit. The performance is considered mediocre compare to other companies.

For ROE, because due to the decrease of profitability causing negative impact for ROE. Dragon Kong should either increase the numerator of profitability or reducing the amount in equity.

2.6 Stock Market Prospect

Company Name	Dragon King				Tao Heung	Fulum
Year	In average for 3 year	2020	2019	2018	In average for 3 years (2018 – 2020)	
Earning per share (HKS)	-0.04	-0.05	-0.02	-0.04	0.06	-0.14
PE ratio	-19.87	-12.13	-16.24	-31.25	6.76	9.34

Table 2.5: Comparison of Stock Market Prospect

Source: (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

EPS indicates how much money a company makes for each share of its stock. Therefore, higher EPS meaning investors rather pay more for a company and provide a useful perspective for determining profitability (Weygandt, Kieso and Kimmel, 2010). In regard to this ratio, Dragon King P/E ratio are very low compared to the industry. It implies the company cannot attract an investor to make further investments, unless the company profits outperform those two companies. It will help increase P.E. ratio for the long term.

2.7 Bankruptcy Index (Z-score)

Z-score is a single measure by adding five common ratios to an output of a credit-strength test that helps gauge the likelihood of bankruptcy for a company. The Z-score model developed by Taffler in 1983 is recognized as one the most reliable in predicting a company's future situation (Vinten, 2005).

Fulum Group 富臨集團 (HKEX: 1443)				Taoheung 稻香 (HKEX: 0573)				Dragon King 龍皇 (HKEX: 8493)			
(HKD'000)	2020	2019	2018	(HKD'000)	2020	2019	2018	(HKD'000)	2020	2019	2018
Total Assets	1,011,357	1,202,420	1,336,965	Total Assets	2,943,918	3,061,313	2,391,292	Total Assets	139,524	256,912	197,660
Total Liabilities	724,463	264,065	311,411	Total Liabilities	1,349,079	1,424,022	705,252	Total Liabilities	196,527	-238,715	-144,437
Current Assets	339,731	761,260	910,300	Current Assets	951,716	999,238	911,622	Current Assets	52,922	82,475	100,537
Current Liabilities	483,498	221,411	264,720	Current Liabilities	797,261	786,923	598,395	Current Liabilities	177,250	159,495	140,921
EBIT (Before Tax + Finance Cost)	-591,738	41,059	61,030	EBIT	-35,496	233,365	152,112	EBIT	-69,085	-25,061	-54,341
Retained Earnings (Reserves)	285,594	936,371	1,024,254	Retained Earnings	1,470,576	1,503,338	1,565,445	Retained Earnings	-71,403	3,797	38,823
Net Sales (Revenue)	1,853,918	2,627,192	2,961,974	Sales (Revenue)	2,388,477	3,905,708	4,138,788	Sales (Revenue)	196,038	402,320	415,033
Stock value	0.186	0.186	0.62	Stock Value (HKD)	0.82	1.29	1.30	Stock Value (HKD)	0.63	0.40	1.26
Number of Stock ('000)	1,300,000	1,300,000	1,300,000	Number of Stock ('000)	1,016,611	1,016,611	1,016,611	Number of Stock ('000)	1,440,000	1,440,000	1,440,000
A	0.40	0.76	0.82	A	0.39	0.39	0.46	A	0.46	0.39	0.61
B	0.40	1.09	1.07	B	0.70	0.69	0.92	B	-0.72	0.02	0.27
C	-1.93	0.11	0.15	C	-0.04	0.25	0.21	C	-1.63	-0.32	-0.91
D	0.20	0.55	1.55	D	0.37	0.55	1.12	D	2.77	-1.45	-7.54
E	1.83	2.18	2.21	E	0.81	1.27	1.73	E	1.40	1.56	2.10
Z Score	0.90	4.69	5.81	Z Score	2.23	3.16	4.44	Z Score	2.28	0.20	-5.46
Average Z Score	3.800114255			Average Z Score	1.744117707			Average Z Score	-0.994220945		

Table 2.6: Comparison of Bankruptcy Index

Source: (Dragon King Group Holdings Limited, 2020) (Tao Heung Holdings Ltd, 2021) (Fulum Group Holdings Limited, 2020)

Note : Assume all Sales are credit sales

Assume all data collected based on year-end

The use of z-score is that when $Z < 1.8$, they are considered located in bankruptcy, and if between $1.81 \leq Z < 2.90$, it is defined in gray area, thus if $Z \geq 2.99$ is considered the company at the safe financial condition (Altman, 1968).

Table 2.6 shows that Dragon King Z score indicates that 2.28 is scored the highest in 2020 compared with others, representing that the company's financial status can be considered at the security level. Nevertheless, the average number of Z Score is indicated -0.99 for Dragon King. It is the lowest score compared to the industry. Thus, it is implied that Dragon King has the potential to put the company in bankruptcy. Also, for column B, C, and E figures is relatively lower than one or other competitors. Therefore, Dragon King needs to increase company retained earnings and EBIT to narrow the difference between other competitors in the market.

3. Corporate Governance

3.1 Corporate Governance Current Overview

No one corporate governance model works perfectly for all companies in all countries (Tricker, 2009). Corporate governance covers a wide range of systems, processes, and procedures and aims to regulate the relationship between managers and shareholders, especially between all company stakeholders (Baker and Anderson, 2010). In a review of Dragon King's corporate governance, the company emphasizes the importance of the diversity of the board of directors, which is not limited to gender, age, culture, and education background, industry experience, technology, and professional skills, and knowledge.

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	2020 Annual General Meeting
	Number of Meetings Attended/Held				
Executive Directors					
Ms. Lee Ching Nung Angel	5/5	–	–	–	1/1
Mr. Wong Wing Chee	5/5	–	2/2	1/1	1/1
Mr. Wong Wing Hong	5/5	–	–	–	1/1
Mr. Chan Ko Cheung (appointed on 10 February 2021)	–/–	–	–	–	–/–
Independent non-executive Directors					
Mr. Kwong Ping Man	5/5	5/5	2/2	1/1	1/1
Mr. Lin Zhisheng	4/5	5/5	1/2	1/1	1/1
Mr. Chang Cheuk Cheung Terence	5/5	5/5	2/2	1/1	1/1

Table 3.1: Board Meeting Record

Source: (Dragon King Group Holdings Limited, 2020)

In table 2.7 illustrate not all the executive directors attend to all the meeting. Furthermore, Ms. Lee Ching Nung (Chairman of the company) is the spouse of Mr. Wong Wing Chee (CEO). Related-party transactions is the key problem for the corporate governance supervision for listed companies in China, which may influence the firm existing shareholding structure (OECD, 2011).

3.2 Suggestion for improvement

Transparency - To ensure fairness and transparency, the company Chairman and CEO position require two independent individuals and a non-direct relationship with each other. And also suggest employee representatives to participate in a committee meeting to enhance management transparency through bottom-up management. Flexible corporate governance principles are often better than strict rules, and so the bottom-up approach is better than a top-down one (Tracy, 2012). It is necessary to maintain effective internal control and risk management system, including arrangements with clear responsibilities and authorizations and comprehensive systems and monitoring procedures to protect the investment of the company's shareholders and the group's assets.

Corporate risk management - The company must maintain competitiveness in the market. Even Dragon King has its own risk management policy. But some areas can further enhance to improve the overall corporate governance structure to be more comprehensive and allow the management to prevent any potential threat to the group and shareholding in the future market environment.

Food risk - There is always a potential threat in food safety and quality in the food industry. To ensure food safety and quality, it is suggested that the group continue to activate food hygiene audits and look for areas of improvement in more strict food hygiene audits throughout all areas of operation. Furthermore, the prevailing opinion is that an external consultant should be used where sensitive issues need to be resolved (Klettner, 2016). Therefore, it is recommended to arrange a secret guest to assess the quality of the group's product and service from time to time.

Staff Safety risk – Due to the COVID -19 in the huge mobilization during the work process. It is suggested that the group provided effective protection equipment for the employee, closely monitored the staff's health status, and imposed rules and regulations for operation under the pandemic.

Supple Risk – Any disruption of a food item or a supplier can impact the choice of food menu and operation. It is suggested to diverse food supply chains and build a solid supplier network to reduce any potential supply chain threat.

4. Investment Plan

Dragon King is planning to promote the takeaway food product via an online shopping platform as the company's future investment project to boost up restaurant sales of food products to lower the reliance on revenue generated from the restaurant operation (refer to Annual Report 2020, page 10). Suggestion given the group's existing online platform will need to be upgraded and provide more function and convenience payment and shopping experience to target potential customers. The suggestion will be to develop an online application for smartphone user.

The length of this program will be operating for the next 5 years. The following calculation will provide related financial analysis to make a project assessment to ensure the project can proceed with investment. Because the company has a sufficient reserve budget for the online business project (refer to Annual report 2020, page 12), the company will not release share to raise funds due to the high gearing ratio. Therefore, there will be a sufficient budget for the project. Thus, financing from a bank will not recommend for this project. Moreover, the depreciation is used the straight line method according to company policies (refer to Annual report 2020, page 78).

4.1 Project Cost Breakdown

Appendix / Source	PROJECT INFORMATION						
(Dragon King Group Holdings Limited, 2020)	Initial Cost (HK\$ million)	0.8					
Appendix 3	Project Cost - mobile apps development (HK\$ million)	0.24					
Appendix 3	Annual Maintenance - mobile apps (HK\$ million)	0.02					
Appendix 2	Expect Project Growth Rate	3%					
	Length of Project Year		1	2	3	4	5
	Expect Sales generate by new project (HK\$ million)		5.9	6.06	6.24	6.43	6.62
Appendix 1	EBITDA (new project)	8%	0.5	0.5	0.5	0.5	0.5
	Depr (straight-line method)	30%					
Appendix 3	App Cost	30%	-0.072	-0.072	-0.072	-0.072	-0.072
Appendix 3	Maintenance	30%	-0.006	-0.006	-0.006	-0.006	-0.006
	Total Depr		-0.078	-0.078	-0.078	-0.078	-0.078
Appendix 1	EBIT (new project)		0.5	0.6	0.6	0.6	0.6
Appendix 4	Tax	16.5%	0.1	0.1	0.1	0.1	0.1
	Profit		0.5	0.5	0.5	0.5	0.5
Appendix 1	EBITDA (new project)		0.5	0.5	0.5	0.5	0.5
Appendix 3	Expenditure (Maintenance)		0.00	0.00	0.00	0.00	0.00
Appendix 4	Tax		-0.1	-0.1	-0.1	-0.1	-0.1
	Cashflow (HK\$ million)	-0.8	0.38	0.39	0.40	0.42	0.43

Table 4.1: Project Information cost breakdown

Source: constructed by author

4.2 ARR and NPV Calculation

ARR

ARR	
Total income for 5 years	2.4
Average ARR (A)	0.48
Initial cost (B) (HK\$ million)	0.8
ARR (A/B) =	60%

Table 4.2: ARR Calculation

Source: constructed by author

The accounting rate of return (ARR) is also known as the average rate of return. It is the ratio of the estimated accounting profit of a project to the average investment made in the project. The higher the ARR is, the better is the profitability for the Project (Aryasri, 2006).

NPV

NPV					
Expect Project Growth Rate		3%			
Initial Cost (HK\$ million)		0.8			
Year	1	2	3	4	5
Cash Flow (HK\$ million)	0.38	0.39	0.40	0.42	0.43
NPV (HK\$million)	1.85				

Table 4.3: NPV Calculation

Source: constructed by author

Net present value (NPV) analysis is a way to determine the current value of a stream of future cash flows. It is a tool in capital budgeting to estimate the projects for funding. When the NPV indicates is present positive value that the project may have the higher net value (McCrary, 2013).

4.3 Payback Period and IRR Calculation

Payback Period

Payback Period	
Cost of Investment (A)	HK\$800,000
Annual Net Cash Flow (B)	HK\$380,000
Payback Period (A/B) = Years	2.11

Table 4.4: Payback Calculation

Source: constructed by author

The cash payback is identifies the time period is required in order to recover the investment from the net annual cash flow that is generated by the investment (Weygandt et la, 2018). Thus the payback period for this project will be 2 years and 2 months

IRR

Rate	3%	
Year	Cash Flow	Present Value
0	(HK\$800,000)	(HK\$800,000)
1	HK\$ 380,000	HK\$368,932
2	HK\$ 390,000	HK\$367,612
3	HK\$ 400,000	HK\$366,057
4	HK\$ 420,000	HK\$373,165
5	HK\$ 430,000	HK\$370,922
NPV	HK\$1,846,687	
IRR	40%	

Table 4.5: IRR Calculation

Source: constructed by author

(IRR) is the estimated rate of return for proposed project and gives a yield from a project. Hence, company uses to measure the performance of the investments' project. It is the discounted rate that makes the Net Present Value of the Project equal to zero. It means that the present value of future cash inflow equal to the present value of cash outflow by using IRR (Steffan, 2008).

4.4 Project Assessment

After the review of above financial analysis and accounting calculation, all the information will be consolidated and provide as follow to use for further explanation.

Refer to	Items	Result by calculation
Table 2.8	ARR	60%
Appendix 5	WACC	15.603%
Table 2.9	NPV	1.85
Table 2.10	PBP	2.11 years
Table 2.11	IRR	40%
Appendix 5	WACC	15.603%

Table 4.6: Ratio Analysis for the project

Source: constructed by author

In reviewing the above calculation result, most of those have a positive value : ARR is higher than WACC, NPV is positive figure, the payback period is 2 years and 2 months. IRR is also higher than the WACC. Hence, all index shows that the investment is at low risk and has potential value toward the company in the coming future. Therefore, the suggestion is given the Dragon King may proceed to this project to further develop a takeaway business to increase more income and sales of a food product.

5. Recommendation and Audit Plan

First Phase Implementation - To provide more food and beverage pre-package products to cater to the takeaway business market. Reduce food waste and convert it into profitable food products as the main goal. Hence, it will help to lower the figure of day sale in inventory, thus increasing the rate of return. Therefore, the company should promote more products and provide high-end food products, thus attracting more middle-class consumers to boost the takeaway business segment and the sales of growth gates.

Second Phase Implementation – the Dragon King ratio increase incrementally over the years. The ideal ratio should consider below 50%. But the company indicated 145% in 2020 (refer to Figure 2.1), which means the total margin of company total debt is higher than shareholder equity. Suggestion given management should consider increasing shareholder equity or minimize total debt to lower the gearing ratio. Therefore, the company can better financial fitness and reduce the difference compare with the industry.

Third Phase Implementation – Dragon King Total Asset Turnover indicated 141% in 2020. The performance is considered higher profitability, meaning the company good use of company assets to generated sales effectively. Nevertheless, another two competitors company indicated 83% and 183%. In order to maintain market competitiveness. Dragon King needs to increase the asset turnover ratio continuously by increasing total sales through the new investment project.

Fourth Phase Implementation – As mentioned in Corporate Governance in page 18 of this report, different potential risks need different attention to avoid any threat to the company. The management needs to formulate guidelines and new policies according to the needs of each potential risk to reduce the risks. Thus, make the company's business operations more systematic with highly food safety standard, and align with shareholder expectations as the ultimate goal.

6. Conclusion

In review the Dragon King financial statement over the last three years. The company's total revenue continues to decline since 2018. Especially in 2020, due to the impact of the COVID-19 pandemic the social distancing policy. The company restaurants' business income has been severely affected. However, the industry was also affected. But the Dragon King overall financial performance is considered an unhealthy condition compared to other companies.

Several financial ratios has illustrated that the company liquidity is at a low level, and the company's debt repayment ability is also considered lower than the industry. Because the total debt of the company is much bigger than shareholder equity. Therefore, the company indicated a higher gearing ratio, which considers the Dragon King at the high risk, meaning it possibly led the company to file for bankruptcy in the coming future.

Nevertheless, the company's total asset turnover indicated that Dragon King has great capability to generate sales on its own. In order to have a better effect of leverage on financial performance, the company has reserved the budget to invest in a new project to develop the online business further to generate more sales revenue for food products and lower the reliance on the sales revenue generated from the restaurant operation during COVID-19 pandemic.

After the financial analysis via the calculation, the result shows that the project is considered a positive value in the most supported index. Therefore, the project can proceed. However, the management should review the market response and sales income from the takeaway segment after implementing the project, as the online takeaway business has a potential decline in post -COVID-19 business environment.

Hence, Dragon King should continuously operate the original restaurant business while simultaneously conduct the online business to maintain the company's competitiveness within the industry.

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8. Appendix

1. Companies' financial comparison

1.1 Financial ratios (based on companies' financial figures)

	Fulum Group 富臨集團 (HKEX: 1443)			Taoheung 稻香 (HKEX: 0573)			Dragon King 龍皇 (HKEX: 8493)			Tai Heung
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020
Current Ratio (Current Assets/Current Liabilities)	0.70	3.44	3.44	1.19	1.27	1.52	0.30	0.52	0.71	
Quick Ratio (Current Assets - Inventory/Current Liabilities)	0.53	3.05	3.17	0.99	1.05	1.27	0.25	0.45	0.63	
Cash Ratio (Cash/Current Liabilities)	0.47	2.91	2.79	0.92	0.97	1.17	0.20	0.39	0.45	
Total Debt Ratio (%) (Total Liabilities/Total Assets)	72%	22%	23%	46%	47%	29%	141%	93%	73%	
Debt / Equity Ratio (Total Liabilities/Total Equities)	2.53	0.28	0.30	0.85	0.87	0.42	-3.45	13.12	2.71	
Long Term Debt Ratio	0.00%	0.04%	0.07%	0.0%	0.0%	0.0%	-0.67%	4.01%	1.32%	
Equity Multiplier (TA/TE = 1+D/E)	3.53	1.28	1.30	1.85	1.87	1.42	-2.45	14.12	3.71	
Time Interest Earned/Cover Ratio (EBIT/Interest)	(23.35)	119.01	98.12	(0.96)	5.43	49.07	(12.49)	(3.30)	(27.24)	
Cash Coverage (EBIT+Depreciation+Amortization/Interest)	(20)	367	257	(1)	5	49	(10)	(1)	(18)	
Inventory Ratios/Turnover (Cost of Goods Sold/Inventory) Days	7.56	9.01	12.13	14.43	19.96	24.56	7.67	12.14	11.82	
Days' Sales in Inventory (days) (365/Inventory Turnover)	48	41	30	25	18	15	48	30	31	
Payment period	21	42	46	14	13	13	207	138	128	
Receivables Ratios/Turnover (Sales/Accounts Receivable)	207.65	108.64	141.68	90.24	89.77	96.70	82.79	153.32	55.05	
Average Collection Period (days) (365/Receivables Turnover)	2	3	3	4	4	4	4	2	7	
Operating Period (days)	50	44	33	29	22	19	52	32	38	
Cash Period (days)	29	2	-14	15	10	5	-155	-105	-90	
EBITDA	(HK\$757,471)	HK\$126,573	HK\$159,830	(HK\$35,496)	HK\$233,365	HK\$152,112	(HK\$91,320)	(HK\$49,974)	(HK\$35,842)	229,919.00
EBITDA Margin	-41%	5%	5%	-1%	6%	4%	-47%	-12%	-9%	8%
EBITDA (New Project) according to 33% growth rate										75873.27
EBITDA Margin (New Project)										8%
Leverage Ratio	4	1	1	2	2	1	-2	14	4	
Total Asset Turnover (times) (Sales/Total Assets)	183%	218%	222%	81%	128%	173%	141%	157%	210%	
Gross Profit Margin (%) (Sales-Cost of Goods Sold)/Sales)	65%	70%	70%	1%	13%	11%	69%	69%	68%	
Net Profit Margin (Net Income after tax /Sales)	-34%	1%	1%	-2%	3%	3%	-38%	-9%	-14%	
Return on Assets (ROA after Tax) (Net Income after Tax/TA)	-63%	2%	3%	-2%	4%	5%	-54%	-14%	-29%	
Return on Equity (ROE after Tax) (Net Income after Tax/TE)	-222%	3%	4%	-3%	8%	6%	131%	-195%	-109%	
PE Ratio	(0.38)	9.45	18.97	(15.05)	9.66	12.15	(12.13)	(16.24)	(31.25)	
Earning Per Share	(0.49)	0.02	0.03	(0.05)	0.13	0.11	(0.05)	(0.02)	(0.04)	
Market Capitalization (HKD'000)	241,800	241,800	806,000	833,621	1,311,428	1,321,594	907,200	576,000	1,814,400	
Fixed Asset to Long Term Liability Ratio	0.43	0.21	0.22	0.56	0.55	0.61	-0.66	3.48	1.48	
Current Liabilities to Net Asset Ratio	0.92	0.23	0.25	0.37	0.35	0.33	-4.70	1.64	2.48	
Current Liabilities to Stock Ratio	5.68	2.56	3.67	4.88	4.61	4.00	22.28	15.54	12.36	
Self-Sustainable Growth Rate (Reveser / Equity)	99.5%	99.8%	99.9%	92.2%	91.8%	92.8%	125.3%	20.9%	72.9%	
Retrun on Capital Employed	-1.12	0.04	0.06	-0.02	0.10	0.08	1.83	-0.26	-0.96	
Asset Utilization (sale revenue / net total assets). (NTA=TA- CL)	351%	268%	276%	111%	172%	231%	-520%	413%	731%	
Working Capital (Net Current Assets)	(143,767)	539,849	645,580	154,455	212,315	313,227	(124,328)	(77,020)	(40,384)	
Net Total Assets	(21,747)	741,282	869,180	1,040,818	1,110,101	1,344,623	(86,770)	(13,684)	38,456	
Stock Turnover Ratio (Inventory turnover Ratio) Days	48	41	30	25	18	15	48	30	31	
Debtor Collection Period	2	3	3	4	4	4	4	2	7	
Creditors' Ratios (days) (Closing Trade x365/Cost of goods))	21	42	46	14	13	13	207	138	128	

Table 1.1: Companies Ratio Table

Source: constructed by author

1.2 Financial figures (based on company's annual reports)

Consolidated Statement (Pichem Group / Tuo Hong / Dragon King)										
	Pichem Group			Tuo Hong			Dragon King			
	2020	2019	2018	2020	2019	2018	2020	2019	2018	
(HK\$'000)										
REVENUE	1,853,918	2,627,192	2,961,974	2,388,477	3,905,708	4,138,788	196,038	402,320	415,033	2,797,922
Takeaway revenue	-	-	-	-	-	-	64,693	-	-	923,315
Increased % of revenue	-	-	-	-	-	-	-	-	-	33%
Other income and gains, net	36,121	18,104	21,269	213,500	106,748	33,413	33,538	3,028	3,332	-
Cost of inventories sold	643,780	778,236	874,762	2,356,715	3,400,940	3,677,360	61,460	134,615	134,670	-
Staff costs	(683,798)	(880,271)	(977,101)	-	-	-	(87,538)	(150,000)	(150,055)	-
Selling & distribution expenses	-	-	-	(90,047)	(105,078)	(111,871)	-	-	-	-
Administrative expenses	-	-	-	(168,418)	(198,253)	(199,188)	-	-	-	-
Property rentals and related expenses	(188,374)	(471,443)	(545,771)	-	-	-	(24,865)	(31,881)	(76,414)	-
Depreciation and amortisation	-	-	-	-	-	-	-	-	-	155,288
Depreciation of right-of-use assets	(245,363)	-	-	-	-	-	(35,024)	(42,779)	-	-
Depreciation of property, plant and equipment	79,630	85,514	98,800	-	-	-	12,789	17,366	18,499	-
Fuel and utility expenses	(121,430)	(157,953)	(180,472)	-	-	-	-	-	-	-
Loss on disposal of subsidiary	-	-	-	-	-	-	(644)	-	(7,410)	-
Loss on written-off of other receivables	-	-	-	-	-	-	(2,373)	-	-	-
Impairment losses of property, plant and equipment	-	-	-	-	-	-	(9,891)	-	(5,846)	-
Impairment losses of right of use assets	-	-	-	-	-	-	(12,549)	-	-	-
Impairment losses under expected credit loss model	-	-	-	-	-	-	(6,500)	-	(1,989)	-
Other expenses	(250,248)	(277,122)	(245,307)	(27,893)	(66,486)	(32,409)	(45,428)	(64,246)	(73,365)	-
Losses from impairment/write-off of non-financial assets	(241,502)	(1,471)	-	-	-	-	-	-	-	-
Losses from impairment/write-off of financial assets	(28,565)	(2,137)	-	-	-	-	-	-	-	-
Finance costs	35,944	345	622	36,921	41,977	3,101	5,533	7,593	1,995	-46,678
Share of profits & losses of associates, net	-	-	-	5,000	666	648	-	-	-	-
PROFIT/(LOSS) BEFORE TAX	677,080	40,714	60,408	77,417	190,388	149,012	71,618	39,643	88,328	121,300
Income tax expense	(20,021)	(15,134)	(17,931)	17,034	(54,584)	(40,261)	(141)	(2,819)	(1,731)	-
PROFIT/(LOSS) FOR THE YEAR	657,059	25,580	42,477	(55,383)	135,804	108,751	71,759	36,824	86,597	-
EBIT	(901,738)	41,059	61,030	(35,496)	233,365	152,112	(60,085)	(25,061)	(54,341)	74,631
Attributable to:										
Owners of the Company	(637,478)	25,496	42,477	(57,956)	124,968	116,390	(74,759)	(35,473)	(58,067)	-
Non-controlling interests	373	84	-	2,573	10,836	(7,639)	-	-	-	-
	(637,105)	25,580	42,477	(55,383)	135,804	108,751	(74,759)	(35,473)	(58,067)	-
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY										
- Basic	HK(49.04) cents	HK1.96 cents	HK3.27 cents	HK(5.70) cents	HK12.29 cents	HK11.25 cents	HK(5.2) cents	HK(2.5) cents	HK(4.1) cents	-
- Diluted	HK(49.04) cents	HK1.96 cents	HK3.26 cents	HK(5.70) cents	HK12.29 cents	HK11.25 cents	HK(5.2) cents	HK(2.5) cents	HK(4.1) cents	-
PROFIT/(LOSS) FOR THE YEAR	(637,103)	25,580	42,477	(55,383)	135,804	108,751	(74,759)	(35,473)	(58,067)	-
OTHER COMPREHENSIVE LOSS										
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	(3,031)	(4,131)	6,020	62,520	(13,420)	(48,903)	(441)	447	(509)	-
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(3,031)	(4,131)	6,020	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(640,134)	21,449	48,497	7,137	122,384	59,848	(75,200)	(35,026)	(58,576)	-
Attributable to:										
Owners of the Company	(640,507)	21,365	48,497	3,026	111,942	69,032	-	-	-	-
Non-controlling interests	373	84	-	4,098	10,442	(9,184)	-	-	-	-
NON-CURRENT ASSETS										
Property, plant and equipment	122,020	201,433	223,600	886,363	897,786	1,031,396	37,558	63,336	78,840	-
Investment properties	189,600	-	-	25,100	29,400	29,400	-	-	-	-
Right-of-use assets	290,334	-	-	760,951	883,295	-	36,040	97,234	-	-
Goodwill	-	58,707	58,707	39,556	38,677	38,883	-	-	-	-
Intangible assets	-	13,000	13,000	-	-	884	-	-	-	-
Deposits and other receivables	69,672	147,349	110,168	167,649	126,368	278,886	9,587	10,413	14,720	-
Deferred tax assets	-	20,671	21,190	112,583	86,549	100,221	3,417	3,454	3,563	-
Total non-current assets	671,626	441,160	426,565	1,997,303	2,062,075	1,475,670	86,602	174,437	97,123	-
CURRENT ASSETS										
Inventories	85,067	86,420	72,088	163,272	170,867	149,745	7,957	10,263	11,398	-
Trade receivables	8,928	24,182	20,906	26,469	43,507	42,800	2,368	2,624	7,539	-
Prepayments, deposits and other receivables	110,096	148,385	116,173	169,510	144,259	167,244	24,219	48,556	45,187	-
Financial assets at fair value through profit or loss	10,787	-	-	4,344	4,100	-	4,928	4,864	15,853	-
Tax receivable	8,491	5,351	6,822	11,826	1,690	6,529	215	270	911	-
Prepaid time deposit	-	-	71,142	15,053	13,875	13,653	-	-	-	-
Cash and cash equivalents	116,412	496,922	623,169	561,243	620,940	531,416	11,692	14,227	17,899	-
Total current assets	339,731	761,269	910,300	951,716	999,238	911,622	52,922	82,475	100,572	-
TOTAL ASSETS	1,011,357	1,202,429	1,336,965	2,949,019	3,061,313	2,391,292	139,524	256,912	197,695	-
FIX ASSETS	122,020	201,433	223,600	886,363	897,786	1,031,396	37,558	63,336	78,840	-
CURRENT LIABILITIES										
Trade payables	36,996	88,808	111,138	91,557	119,872	135,177	34,599	46,962	47,101	-
Other payables, accruals and deferred income	78,921	117,967	124,966	212,570	247,192	296,443	25,960	28,338	42,455	-
Interest-bearing bank borrowings	94,494	400	10,783	272,500	153,100	149,667	76,448	43,423	50,500	-
Lease liabilities	260,710	-	-	215,610	246,641	-	39,190	38,058	-	-
Finance lease payables	-	389	484	-	-	176	-	-	-	-
Provision	6,760	4,994	12,439	-	-	-	-	-	-	-
Tax payable	5,517	8,853	4,910	5,024	20,118	16,932	1,053	2,714	865	-
Total current liabilities	483,498	221,411	264,720	797,261	788,923	598,395	177,250	159,495	140,921	-
NET CURRENT ASSETS/(LIABILITIES)	(143,767)	539,849	645,580	154,455	212,315	313,227	(124,328)	(77,020)	(40,384)	-
TOTAL ASSETS LESS CURRENT LIABILITIES	527,859	981,059	1,072,245	2,146,657	2,274,390	1,792,897	(37,726)	97,417	56,739	-
NON-CURRENT LIABILITIES										
Accruals and deferred income	3,572	22,269	27,371	14,028	11,741	82,400	-	-	-	-
Lease liabilities	223,781	-	-	518,321	606,408	-	16,869	62,475	-	-
Finance lease payables	-	352	741	-	-	397	383	730	703	-
Provision	12,918	19,048	18,300	-	-	7,581	-	-	-	-
Deferred tax liabilities	744	985	279	19,469	18,950	16,479	-	-	-	-
Total non-current liabilities	240,965	42,654	46,691	551,818	637,099	106,857	19,277	79,220	3,516	-
Net assets	286,894	938,355	1,025,554	1,594,839	1,637,291	1,686,040	(57,003)	18,197	53,223	-
TOTAL LIABILITIES	724,463	264,065	311,411	1,349,079	1,424,022	705,252	196,527	238,715	144,437	-
Less Term Liabilities										
EQUITY										
Equity attributable to owners of the Company										
Issued capital	1,300	1,300	1,300	101,661	101,661	101,661	1,440	1,440	1,440	-
Reserves	285,594	936,371	1,024,254	1,470,576	1,503,338	1,565,445	(71,403)	3,797	38,823	-
	286,894	937,671	1,025,554	1,572,237	1,604,999	1,667,106	(69,963)	5,237	40,263	-
Non-controlling interests	-	684	-	22,402	32,292	18,934	-	-	-	-
Total equity	286,894	938,355	1,025,554	1,594,839	1,637,291	1,686,040	(57,003)	18,197	53,223	-
Stock value	0.186	0.186	0.62	0.82	1.29	1.30	0.63	0.4	1.26	-
Number of Stock ('000)	1,300,000	1,300,000	1,300,000	1,016,611	1,016,611	1,016,611	1,440,000	1,440,000	1,440,000	-
Share price per share	-	-	-	-	-	-	1.440	-	-	-

Table 1.2: Financial Figures

Source: constructed by author

2. Companies' financial Figures

According to another listed companies named "Tai Hing Holding Limited" in the same industry, their business growth in takeaway and food delivery via online application platform has indicated over 33% revenue increased compared with the previous year in 2020 (Tai Hing, 2021)

However, the argument is that the market growth rate for take away business might not be very optimistic after the pandemic period. Delivery Hero consider as the biggest takeaway global company by using online application platform, the company is present with its Foodpanada brand comprise target various market such as Hong Kong, Singapore, Taiwan and Thailand etc. The growth rate for the company Orders and GMV(Gross Merchandise Volume) during and post pandemic period show as below (DeliveryHero, 2021a, 2021b, 2020).

	Delivery Hero – Key Performance indicators comparison by Quarter 2019 -2021			
Orders (Worldwide)	Q1 2021	Q 1 2020	Q1 2020	Q1 2019
YoY Growth %	88.2 %	85.8%	85.8%	55.2%
Margin %	+ 2.4%		+ 30.6 %	
GMV Group	Q1 2021	Q 1 2020	Q1 2020	Q1 2019
Asia (EUR million)	5,129.4	2,800.6	2,800.6	416.3
Margin (times)	1.83 times		67.27 times	

Table 2.1: Key Performance comparison for online delivery business

Source: constructed by author

In Table 1.3 indicate that the overall business performance growth rate for online delivery by using online application is significantly decremental after 2020. Therefore, the assumption for revenue growth rate of takeaway business can be made based on the recent Orders growth, which is approximately 3%.

3. Online application development cost

3.1 Online application development cost reference

	*Quotation demo	*Market range in Hong Kong
Complex level	Simple	Simple
Cost	HK\$ 240,000	HK\$ 30,000 – HK\$ 70,000
Deprecation / Maintenance	HK\$ 20,000	Self-maintenance or additional charges

Table 3.1: Key Performance comparison for online delivery business

Source: constructed by author

【 Mobile App Development Cost, Rate Comparison 】

	Simple	General	Challenging
Cost	HKD 30,000 - HKD 70,000	HKD 70,000 - HKD 250,000	> HKD 300,000
Type	Webview App	General customization	Fully customization
UI Design	Website Templates	General customization	Fully customization
UX Design	No	General customization	Fully customization
Customization	No	General	High
Branding	No	General	High
Functionality	Limited	General customization	Unlimited / fully customized
Multi Language	Generally not included	Included	Included
Development Opportunity	Limited	General	Unlimited / fully customized
Maintenance / Upgrade	Self-maintenance or additional charges	Included in a contract period	Included in a contract period
Modification	Limited	Included in a contract period	Included in a contract period
Suitable for	Small scaled App / Low branding requirement / Low traffic requirement	Require traffic growth / Require branding / Require customization	Creative APP / High functionality requirement / High traffic requirement / Corporate image APP / Highly customized

*The information above is for reference purpose only. The final service details are subject to the agreement.

Table 3.2: Mobile App Development Cost, Rate Comparison

Source: (2Easy, 2021)

Quotation

Item	Qty	Remarks	Price (HKD)
E-commerce Project	1	Web, Android app, iOS app integrate with Shopify - All products, category, shopping cart are provided by Shopify	\$200,000
Testing	1	Testing includes - QA user test - Unit and Functional test *10% of the project	\$20,000
Maintenance	1	*10% for 12 month maintenance period	\$20,000
		Total:	\$240,000

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Table 3.3: Demo Quotation in Hong Kong 2021

Source: constructed by author

4. Tax

Current Tax Rates in Hong Kong

Tax Rates for Companies

Income		Tax Rate
Tax rate for corporations	First HK\$2 million	8.25%
	Over HK\$2 million	16.5%
Tax rate for unincorporated businesses	First HK\$2 million	7.5%
	Over HK\$2 million	15%
Tax rate on capital gains		0%
Tax rate on shareholder dividends		0%
Tax rate on foreign-sourced income		0%

Table 4.1: Tax Rates in Hong Kong 2021

Source: (AboutGuideMeHongKong, 2021)

5. WACC

WACC	
$R_{\text{Equity}} = R_{\text{free}} + (R_{\text{Prem}} \times \text{Beta})$	
R free	0.78
R Prem	8.1
Beta	1.83
WACC	15.603

Table 5.1: WACC for Dragon King Group Holding Limited

Source: constructed by author

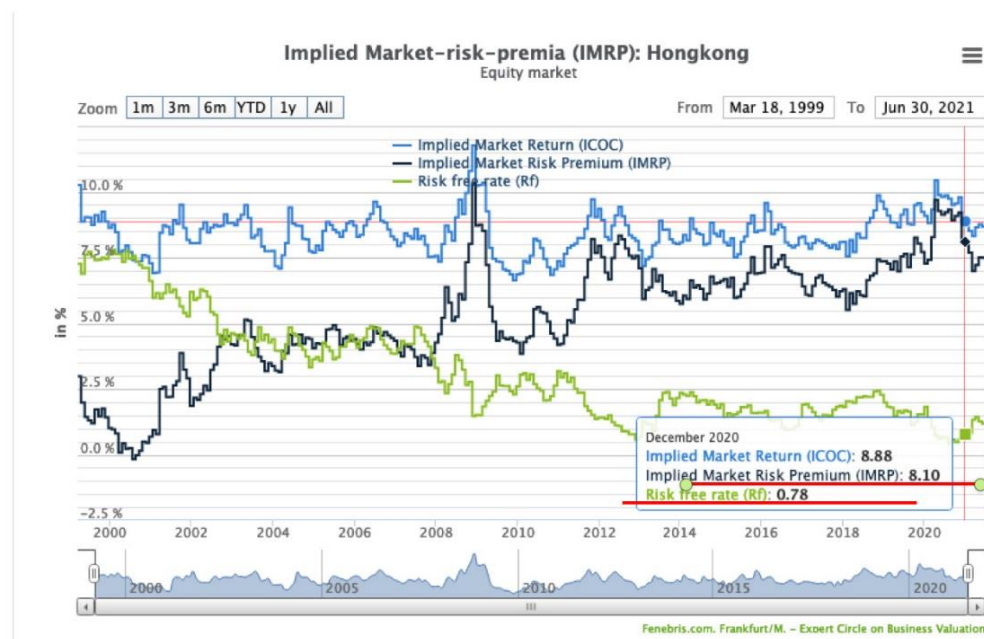


Figure 5.2 IMRP and R.F. rate in December 2020 in Hong Kong

Source: (Market-risk-premia, 2021)

Dragon King Group Holdings Limited (8493.HK)

HKSE - HKSE Delayed Price. Currency in HKD

☆ Add to watchlist

0.185 +0.005 (+2.78%)

At close: 2:27PM HKT

Summary

Chart

Conversations

Statistics

Historical Data

Profile

Financials

Analysis

Options

Holders

Sustainability

Previous Close

0.180

Market Cap

31.968M

Open

0.180

Beta (5Y Monthly)

1.82

Bid

0.163 x 0

PE Ratio (TTM)

N/A

Ask

0.185 x 0

EPS (TTM)

N/A

Day's Range

0.180 - 0.186

Earnings Date

Mar 22, 2019

52 Week Range

0.160 - 2.600

Forward Dividend & Yield

N/A (N/A)

Volume

24,000

Ex-Dividend Date

N/A

Avg. Volume

5,963,085

1y Target Est

N/A

1D

5D

1M

6M

YTD

1Y

5Y

Max

Full screen

Figure 5.3 Beta rate for Dragon King Group

Source: (Market-risk-premia, 2021)

