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龍皇
DRAGON KING
RESTAURANT

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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

FINAL RESULTS

The board of Directors (the "**Board**") of the Company announces the preliminary consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018. The financial information of the Group has been approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*4*	**402,320**	415,033
Cost of inventories consumed		**(124,625)**	(134,679)
Gross profit		**277,695**	280,354
Other income and gains, net		**3,025**	3,332
Staff costs		**(150,009)**	(150,055)
Depreciation of property, plant and equipment		**(17,366)**	(18,499)
Depreciation of right-of-use assets		**(42,279)**	–
Loss on disposal of property, plant and equipment		**–**	(7,410)
Impairment losses of property, plant and equipment		**–**	(5,846)
Impairment losses under expected credit loss model		**–**	(1,989)
Rental and related expenses		**(31,881)**	(76,414)
Other operating expenses		**(64,246)**	(73,365)
Finance costs	*6*	**(7,593)**	(1,995)
Listing expenses		**–**	(4,449)
Loss before tax		**(32,654)**	(56,336)
Income tax expense	*7*	**(2,819)**	(1,731)
Loss for the year attributable to owners of the Company	*8*	**(35,473)**	(58,067)
Loss per share		***HK cents***	*HK cents*
– Basic and diluted	*10*	**(2.5)**	(4.1)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 *HK$'000*	2018 *HK$'000*
Loss for the year	**(35,473)**	(58,067)
Other comprehensive expense:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**447**	(509)
Total comprehensive expense for the year	**(35,026)**	(58,576)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**63,336**	78,840
Right-of-use assets		**97,234**	–
Deposits and other receivables		**10,413**	14,720
Deferred tax assets		**3,454**	3,563
		174,437	97,123
CURRENT ASSETS			
Inventories		**10,263**	11,398
Trade receivables	*11*	**2,624**	7,539
Prepayments, deposits and other receivables		**48,556**	45,187
Financial assets at fair value through profit or loss		**4,864**	15,853
Amounts due from related companies		**1,671**	1,660
Tax recoverable		**270**	911
Bank balances and cash		**14,227**	17,989
		82,475	100,537
CURRENT LIABILITIES			
Trade payables	*12*	**46,962**	47,101
Other payables and accruals		**28,338**	42,455
Lease liabilities		**38,058**	–
Bank borrowings		**43,423**	50,500
Tax payable		**2,714**	865
		159,495	140,921
NET CURRENT LIABILITIES		**(77,020)**	(40,384)
TOTAL ASSETS LESS CURRENT LIABILITIES		**97,417**	56,739

	Notes	**2019** **HK$'000**	2018 *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**2,468**	3,516
Lease liabilities		**62,475**	–
Loan from a shareholder		**14,277**	–
		79,220	3,516
NET ASSETS		**18,197**	53,223
CAPITAL AND RESERVES			
Share capital	*13*	**14,400**	14,400
Reserves		**3,797**	38,823
TOTAL EQUITY		**18,197**	53,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31 December 2019

1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively , the "**Group**") are principally engaged in operation and management of restaurants.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

During the year ended 31 December 2019, the Group recorded a consolidated net loss of approximately HK$35,473,000 (2018: HK$58,067,000), and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$77,020,000 (2018: HK$40,384,000).

As at 31 December 2019, the Group had cash and cash equivalents of approximately HK$14,227,000 (2018: HK$17,989,000), and outstanding interest-bearing bank borrowings of approximately HK$43,423,000 (2018: HK$50,500,000), of which HK$18,804,000 (2018: HK$23,365,000) were due for repayment or renewal within the next twelve months after 31 December 2019.

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

(i) the Group had interest-bearing bank borrowings of HK$43,423,000 as at 31 December 2019, of which approximately HK$18,804,000 is repayable within one year. The remaining interest-bearing bank borrowings, amounting to HK$24,619,000 were classified as current liabilities due to the existence of a repayment on demand clause in the loan agreements. The Group will actively negotiate with the bank for the renewal of the Group's bank borrowings when they fall due in order to secure necessary funds to meet the Group's working capital and financial requirements in the foreseeable future. In the opinion of the Directors, the Group will be able to roll over or refinance the bank borrowings upon their maturity;

(ii) management has been endeavoring to improve the Group's operating results and cash flows through various cost control measures and will slow down the opening of new restaurants or will close underperforming restaurants in the future;

(iii) negotiating with banks for new banking facilities;

(iv) negotiating with the landlords for rent concessions due to the reduced number of customers as overshadowed by the outbreak of novel coronavirus disease; and

(v) all Directors, senior management members and employees agreed and will have a seven-days unpaid leave starting from February 2020 in order to save cost and will be reviewed by the board of Directors (the "**Board**") at the end of each month.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect to these adjustments has not been reflected in the consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Interpretation ("**Int**") 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standards ("**HKAS**") 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities of 4.82%.

	At 1 January 2019 ***HK$'000***
Operating lease commitments disclosed as at 31 December 2018	**164,927**
Lease liabilities discounted at relevant incremental borrowing rates	**150,364**
Less: Recognition exemption – short-term leases	**(13,543)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	**136,821**
Add: Accrued lease payments at 31 December 2018	**703**
Lease liabilities as at 1 January 2019	**137,524**
Analysed as:	
Non-current	**91,921**
Current	**45,603**
	137,524

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		137,524
Amounts included in property, plant and equipment under HKAS 17		
– Restoration and reinstatement costs	*(a)*	1,813
Adjustments on rental deposits at 1 January 2019	*(b)*	2,068
Less: Accrued lease liabilities at 1 January 2019		(703)
		140,702

(a) In relation to the leases of restaurants that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to approximately HK$1,813,000 as at 1 January 2019 were included as right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, approximately HK$2,068,000 was adjusted from refundable rental deposits paid to right-of-use assets.

The transition to HKFRS 16 has no impact on the accumulated losses at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000
Non-current Assets			
Property, plant and equipment	78,840	(1,813)	77,027
Right-of-use assets	–	140,702	140,702
Prepayment, deposits and other receivables	14,720	(2,068)	12,652
Current Liabilities			
Other payables and accruals	42,455	(703)	41,752
Lease liabilities – current portion	–	45,603	45,603
Non-current Liabilities			
Lease liabilities – non-current portion	–	91,921	91,921

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned in the consolidated financial statements, the Directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE

	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customers		
Restaurant operations	**402,320**	415,033

Disaggregated revenue information from contracts with customers

For the year ended 31 December 2019

	Operation and management of restaurants *HK$'000*
Type of goods or services	
Revenue from Chinese restaurant operations	**402,320**
Geographical markets	
Hong Kong and Macau	**366,115**
People's Republic of China (the "**PRC**")	**36,205**
Total	**402,320**
Timing of revenue recognition	
At a point in time	**402,320**

For the year ended 31 December 2018

	Operation and management of restaurants *HK$'000*
Type of goods or services	
Revenue from Chinese restaurant operations	415,033
Geographical markets	
Hong Kong and Macau	375,863
The PRC	39,170
Total	415,033
Timing of revenue recognition	
At a point in time	415,033

5. OPERATING SEGMENT

Information reported to the board of directors (the "**Board**"), being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segment under HKFRS 8 *Operating Segments* is operation and management of restaurants.

Since this is the only reportable and operating segment of the Group, no further analysis thereof is presented. All the revenue of the Group are generated from operation and management of restaurants for the years ended 31 December 2019 and 2018.

Geographical information

The Group's operations are located in Hong Kong, Macau and the PRC.

Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on geographical location of the assets.

	Revenue from external customers		**Non-current assets**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and Macau	**366,115**	375,863	**127,638**	68,763
The PRC	**36,205**	39,170	**32,932**	10,077
	402,320	415,033	**160,570**	78,840

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

There was no revenue from customers individually contributing over 10% to the total revenue of the Group for the years ended 31 December 2019 and 2018.

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interests on:		
Lease liabilities	**5,691**	–
Bank borrowings	**1,902**	1,995
	7,593	1,995

7. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**2,497**	1,879
Macau	**58**	–
	2,555	1,879
Under (Over) provision in prior years		
Hong Kong	**155**	(341)
Deferred tax		
Current year	**109**	193
	2,819	1,731

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

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. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors 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 16.5% of the estimated assessable profit for both years.

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 the both years.

Macau profit tax have been provided at the rate of 12% on the estimated profits arising in Macau for both years.

8. LOSS FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Employee benefit expense (excluding directors' and chief executive's remuneration):		
– salaries, bonuses and allowances	**135,402**	135,614
– retirement benefit scheme contributions	**6,536**	6,599
	141,938	142,213
Auditor's remuneration		
– audit services	**1,075**	1,450
Legal and professional fee	**2,284**	3,925
Loss on written-off of property, plant and equipment	**52**	–

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

10. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(35,473)**	(58,067)

	Number of shares	
	2019	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,440,000**	1,425,205

No diluted loss per share for the years ended 31 December 2019 and 2018 were presented as there were no potential ordinary shares in issue for the years ended 31 December 2019 and 2018.

11. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Contracts with customers	**2,624**	9,528
Less: Allowance for credit losses	**–**	(1,989)
	2,624	7,539

As at 1 January 2018, trade receivables from contracts with customers amounted to approximately HK$8,880,000.

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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**2,566**	4,323
1 to 2 months	**14**	3,091
Over 3 months	**44**	125
	2,624	7,539

12. TRADE PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**9,112**	12,511
1 to 2 months	**5,930**	9,292
2 to 3 months	**3,792**	7,094
Over 3 months	**28,128**	18,204
	46,962	47,101

13. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
As at 1 January 2018, 31 December 2018 and 2019	2,000,000,000	20,000
Issued and fully paid:		
As at 1 January 2018	10,000	–*
Capitalisation of shares *(note a)*	1,079,990,000	10,800
Share issued pursuant to the share offer *(note b)*	360,000,000	3,600
As at 31 December 2018 and 2019	1,440,000,000	14,400

* Amount less than HK$1,000

Notes:

(a) Pursuant to the written resolutions passed on 15 December 2017, the Directors authorised to capitalise a sum of approximately HK$10,799,900 from the amount standing to the credit of the share premium account of the Company and applied such amount to pay up in full at par of 1,079,990,000 ordinary shares of the Company upon the listing of the Company's shares on GEM of the Stock Exchange on 16 January 2018.

(b) The Company's shares were listed on GEM of the Stock Exchange on 16 January 2018 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 of the Stock Exchange.

All the ordinary shares issued during the year ended 31 December 2018 ranked pari passu with the existing ordinary shares in all respects.

14. EVENTS AFTER THE REPORTING PERIOD

a) On 17 January 2020, Dragon King Holdings Limited ("**Dragon King**"), a direct wholly-owned subsidiary of the Company, and Mr. Leung Chi Wai ("**Mr. Leung**"), an independent third party, entered into the a sale and purchase agreement, pursuant to which, Dragon King has agreed to sell and Mr. Leung has agreed to acquire the entire issued shares of Prominent Voice Limited ("**Prominent Voice**") beneficially held by Dragon King, at a consideration of approximately HK$2,782,000. Prominent Voice is principally engaged in operating the restaurant under the brand name of "Dragon Feast 龍宴" located in Sheung Shui, New Territories. The disposal is completed on 17 January 2020, Prominent Voice ceased to be a subsidiary of the Company on the same day. Details of the disposal of a subsidiary has been disclosed in the Company's announcement date 17 January 2020.

b) The outbreak of novel coronavirus disease since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position and performance.

   The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: i) negotiating with the landlords for rent concessions due to the reduced number of customers as overshadowed by the outbreak of novel coronavirus disease; ii) all Directors, senior management members and employees agreed and will have a seven-days unpaid leave starting from February 2020 in order to save cost and will be reviewed by the Board at the end of each month; and iii) the Group will strengthen its promotional efforts to maintain the Group's competitiveness, including the launching of new promotional menus regularly and seasonal food. The Group will keep its contingency measures under review as the situation evolves.

   As far as the Group's businesses are concerned, the outbreak has materially and adversely impacted the revenue from restaurants' operations, some debtors' repayment abilities and turnover of inventory. As the extent to which the outbreak of novel coronavirus disease will continue is uncertain, it is not practicable to estimate the full financial effect that the outbreak of novel coronavirus disease may have on the Group's businesses as at the date when the financial statements are authorised to issue.

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's audited consolidated financial statements for the year ended 31 December 2019. The report includes an emphasis of matter, without qualification.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group incurred a consolidated net loss of approximately HK$35,473,000 during the year ended 31 December 2019, and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$77,020,000. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

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

Restaurant Operations

For the year ended 31 December 2019, the Group operated ten Cantonese full-service restaurants in Hong Kong, Macau and Shanghai, the PRC. The Group's restaurants are operated under five self-owned brands, namely "Dragon King（龍皇）", "Dragon Seal（龍璽）", "Dragon Gown（龍袍）", "Imperial Seal（皇璽）" and "Dragon Feast（龍宴）". All of the Group's restaurants are strategically located in prominent commercial areas, residential areas or shopping complexes. The Group is committed to providing high quality food and services as well as comfortable dining environment to the customers.

Vast majority of the Group's restaurants are located in Hong Kong. As at 31 December 2019, the Group had eight restaurants in Hong Kong, two of which are located on Hong Kong Island (respectively known as the "**Causeway Bay Restaurant**" and the "**Wan Chai Restaurant**"), four of which are located in Kowloon (respectively known as the "**ICC Restaurant**", the "**Kwun Tong Restaurant**", the "**San Po Kong Restaurant**" and the "**Whampoa Restaurant**"), and two of which are located in New Territories (respectively known as the "**Sheung Shui Restaurant**" and the "**Kwai Chung Restaurant**"). The Group's restaurant in Macau is located in the Venetian Macao (known as the "**Macau Restaurant**") and the restaurant in Shanghai is located in Pudong New District (known as the "**Shanghai Restaurant**").

As disclosed in the Company's announcement dated 17 January 2020, the Sheung Shui Restaurant was disposed of to an independent third party on January 2020 due to the worsening financial performance in recent years.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded a total revenue of approximately HK$402.3 million, representing a decrease of approximately HK$12.7 million or approximately 3.1% as compared to approximately HK$415.0 million for the year ended 31 December 2018.

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

	For the year ended 31 December			
	2019		2018	
	Revenue	**% of total revenue**	Revenue	% of total revenue
	HK$'000	*%*	*HK$'000*	*%*
Dragon King（龍皇）	**229,627**	**57.1%**	251,725	60.7%
Dragon Seal（龍璽）	**57,883**	**14.4%**	60,382	14.5%
Dragon Gown（龍袍）	**28,401**	**7.1%**	7,412	1.8%
Imperial Seal（皇璽）	**36,205**	**9.0%**	39,170	9.4%
Dragon Feast（龍宴）	**50,204**	**12.4%**	56,344	13.6%
Total revenue	**402,320**	**100.0%**	415,033	100.0%

Dragon King（龍皇）

The revenue generated from Dragon King decreased by approximately HK$22.1 million, or approximately 8.8%, from approximately HK$251.7 million for the year ended 31 December 2018 to approximately HK$229.6 million for the year ended 31 December 2019.

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

Dragon Seal（龍璽）

The revenue generated from Dragon Seal decreased by approximately HK$2.5 million, or approximately 4.1%, from approximately HK$60.4 million for the year ended 31 December 2018 to approximately HK$57.9 million for the year ended 31 December 2019. Such decrease was mainly due to the social instabilities in Hong Kong which led to the reducing number of customers to dine at the restaurant, especially customers from the PRC in the second half of the year.

Dragon Gown（龍袍）

The revenue generated from Dragon Gown increased by approximately HK$21.0 million, from approximately HK$7.4 million for the year ended 31 December 2018 to approximately HK$28.4 million for the year ended 31 December 2019. Such increase was mainly due to full operation of the restaurant during the year ended 31 December 2019 while only five months of operation during the corresponding year in 2018.

***Imperial Seal*（皇璽）**

The revenue generated from Imperial Seal decreased by approximately HK$3.0 million, or approximately 7.7%, from approximately HK$39.2 million for the year ended 31 December 2018 to approximately HK$36.2 million for the year ended 31 December 2019. Such decrease was mainly due to the Sino-US trade war in the second half of 2018 which affected the consumption sentiment of customers in the PRC and the situation continued in 2019.

***Dragon Feast*（龍宴）**

The revenue generated from Dragon Feast decreased by approximately HK$6.1 million, or approximately 10.8%, from approximately HK$56.3 million for the year ended 31 December 2018 to approximately HK$50.2 million for the year ended 31 December 2019. Such decrease was mainly due to the increase in the competition of Cantonese cuisine nearby and the refurbishment works performed during the second half of March 2019 which the restaurant did not have operation during that period.

Gross profit and gross profit margin

The Group's gross profit (i.e. revenue minus cost of inventories consumed) amounted to approximately HK$277.7 million for the year ended 31 December 2019, representing a decrease of approximately HK$2.7 million or approximately 1.0% from approximately HK$280.4 million for the year ended 31 December 2018 driven by the decrease in revenue and offset by the tightened cost control on food ingredients.

Moreover, the Group's overall gross profit margin slightly increased from approximately 67.6% for the year ended 31 December 2018 to approximately 69.0% for the year ended 31 December 2019, the increase in gross profit margin was mainly due to the tightened cost control on food ingredients.

Other income and gains, net

Other income and gains, net decreased by approximately HK$0.3 million or approximately 9.1% from approximately HK$3.3 million for the year ended 31 December 2018 to approximately HK$3.0 million for the year ended 31 December 2019. Such decrease was mainly due to decrease in fair value gains on financial assets at FVTPL.

Staff costs

Staff costs was approximately HK$150.0 million for the year ended 31 December 2019. The amount remain stable as compared to approximately HK$150.1 million for the year ended 31 December 2018.

Loss on disposal of property, plant and equipment

The loss on disposal of property, plant and equipment was approximately HK$7.4 million for the year ended 31 December 2018. It was mainly attributed to the closure of the Old Wan Chai Restaurant which the lease has expired on 30 June 2018.

Depreciation of right-of-use assets

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

Impairment losses of property, plant and equipment

Impairment losses of the property, plant and equipment was approximately HK$5.8 million and it was mainly attributed to the Whampoa, Shanghai and Sheung Shui Restaurant which recorded operating losses for the year ended 31 December 2018.

Rental and related expenses

The Group's rental and related expenses decreased by approximately HK$44.5 million or approximately 58.2% from approximately HK$76.4 million for the year ended 31 December 2018 to approximately HK$31.9 million for the year ended 31 December 2019. Such decrease was mainly due to the classification of rental expenses as depreciation of right-of-use assets and expenses from short-term leases under HKFRS 16.

Other operating expenses

The Group's other operating expenses decreased by approximately HK$9.2 million or approximately 12.5% from approximately HK$73.4 million for the year ended 31 December 2018 to approximately HK$64.2 million for the year ended 31 December 2019. Such decrease was mainly due to the tightened cost control on the operating business.

Finance costs

Finance costs of the Group significantly increased by approximately HK$5.6 million or approximately 280.0% from approximately HK$2.0 million for the year ended 31 December 2018 to approximately HK$7.6 million for the year ended 31 December 2019. The increase in finance costs was mainly attributable to the interest on lease liabilities attributable to the right-of-use assets under HKFRS 16.

Listing expenses

Listing expenses was approximately HK$4.4 million for the year ended 31 December 2018, listing expenses incurred for the year ended 31 December 2018 is one-off in nature and mainly attributable to the professional fees in relation to the listing.

Loss attributable to owners of the Company

For the year ended 31 December 2019, the Group recorded a loss attributable to owners of the Company of approximately HK$35.5 million, as compared with loss of approximately HK$58.1 million for the year ended 31 December 2018.

The decrease in loss attributable to owners of the Company was mainly attributed to overall cost savings exercises implemented on restaurants operation during the year.

PROSPECTS

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

In view of the recent economic downturn accompanied by the unstable social atmosphere and the outbreak of novel coronavirus disease in Hong Kong, the Group will adopt a conservative and cautious approach to operate its business. The food and beverage industry is facing a very challenging business environment including a slowdown in economic growth in Hong Kong, weaken consumption sentiments starting from the second half of 2019, reduction in number of visitors that affected the total consumptions in the Group's restaurants, the uncertainties of the Sino-US trade war and shortening of opening hours of shopping malls where the Group's restaurants are located. The total effects of the above pose a challenge to the Group's business.

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

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

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

COMPARISON OF BUSINESS OBJECTIVES AND STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The Group will endeavour to achieve the following business objectives:

Business Strategy as stated in the prospectus of the Company dated 29 December 2017 (the "Prospectus")	**Implementation activities up to 31 December 2019 as stated in the Prospectus**	**Actual business progress up to the date of this announcement**
Expansion in Hong Kong with multi-brand strategy	• To open restaurant in Hong Kong under the brand name of "Dragon King" and "Dragon Feast"	• The Kwai Chung Restaurant commenced its operation as "Dragon King" on 2 May 2018 • The Wan Chai Restaurant commenced its operation as "Dragon Gown" on 15 August 2018 • The Group carefully evaluated the market and delayed the expansion plan
Further enhance the Group's brand recognition	• To advertise and promote more in conventional media channels and online platforms	• Continue to enhance the Group's brand recognition through various media channels
	• To engage in more marketing campaigns and other marketing activities	• Ms. Alice Chan（陳煒）was appointed as the Group's spokesperson
Enhancement of existing restaurant facilities	• To refurbish the Group's existing restaurants' fitting out and utensils • To attract new and returning customer traffic	• The refurbishment work in the Group's restaurants continues
Repayment of bank and other borrowings	• To repay part of our outstanding bank borrowings	• Early repayment of four outstanding bank borrowings amounted to HK$3.0 million

USE OF NET PROCEEDS FROM LISTING

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

As at 31 December 2019, the net proceeds from share offer were applied as follows:

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

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

As at 31 December 2019, approximately HK$30.5 million out of the net proceeds from the Listing had been used. The remaining unutilised net proceeds of approximately HK$6.8 million were deposited in licensed banks in Hong Kong. The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly evaluate the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group. Nevertheless, given the current economic condition and social instabilities together with the outbreak of coronavirus disease in Hong Kong subsequent to the reporting period, the Group has decided to delay the plan of opening new restaurant until the Directors consider the overall economical and social atmosphere resume and is suitable for the expansion.

CAPITAL STRUCTURE

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

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2019, the Group had borrowings of approximately HK$43.4 million which was denominated in Hong Kong Dollars (2018: approximately HK$50.5 million). The Group's bank borrowings were primarily used in financing the working capital requirement of its operations.

As at 31 December 2019, the Group's cash and cash equivalents were approximately HK$14.2 million (2018: approximately HK$18.0 million). The Directors believe that the Group is in a healthy financial position to achieve its business objectives.

GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group was approximately 92.4% (2018: approximately 70.0%). 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 31 December 2019, the borrowings were secured by a building owned by the Group and life insurance policies amounted to approximately HK$29.5 million (2018: approximately HK$30.3 million) and approximately HK$4.9 million (2018: approximately HK$15.9 million), respectively, for certain banking facilities granted to the Group.

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

There was no significant investment held, material acquisition and disposal of subsidiaries and affiliated companies by the Company during the year ended 31 December 2019. Save as disclosed in this announcement, there is no other plan for material investments or capital assets as at 31 December 2019.

FOREIGN EXCHANGE EXPOSURE

Most of the income and expenditures of the Group are denominated in HKD and 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 year ended 31 December 2019, 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 31 December 2019 (2018: Nil).

COMMITMENTS

The contract commitments mainly involve rental payable by the Group in respect of the certain restaurants, staff quarters and office premises under operating leases arrangements. As at 31 December 2019, the Group do not have any operating lease commitments due to the adoption of HKFRS 16 Leases (2018: approximately HK$164.9 million).

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group had 590 employees (2018: 650 employees) working in Hong Kong, Macau and Shanghai. Employees are remunerated based on their qualifications, position and performance. The remuneration offered to employees generally includes salaries, allowances and discretionary bonus. Various kind of trainings were provided to the employees. The total staff costs (including remuneration of Directors and mandatory provident funds contributions) for the year ended 31 December 2019 and 2018 amounted to approximately HK$150.0 million and approximately HK$150.1 million respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

Foreign currency risk

The Group currently does not expose to material foreign exchange risk as most of the monetary assets and liabilities are denominated in Hong Kong Dollars.

Credit risk

The Group trades with a large number of individual customers and trading terms are mainly on cash and credit card settlement. In view of the Group's operation, it does not have significant credit risk exposure to any single individual customer. The credit risk of the other financial assets comprises carrying amounts of cash and bank balances, deposits and other receivables and amounts due from related companies. These credit risks are monitored on an ongoing basis.

Liquidity risk

The Group has policy in place to regularly monitor the Group's liquidity requirements, both existing and expected, in order to maintain sufficient reserves of cash from short term to long term. The Directors are of the view that the liquidity risk management policy enables the Group to have sufficient resources to meet the debt obligations and working capital needs.

Capital risk

The Group's objectives for managing capital are to ensure the ability to continue as a going concern in order to provide returns for the shareholders and to maintain an optimal capital structure to minimise the cost of capital. To maintain or adjust capital structure, the Group may adjust dividend payout ratio, make return of capital to shareholders in the form of dividend or share buyback, issue new Shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules. During the year ended 31 December 2019, to the best knowledge of the Board, the Company had complied with all the applicable code provisions set our in the CG code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

AUDIT COMMITTEE

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

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

The Company has complied with Rule 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members, the majority of the members of the Audit Committee must be independent non-executive Directors 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.

During the year, the Audit Committee held five meetings to review and comment on the Company's 2018 annual results, 2019 interim results, quarterly results, change of auditor as well as the Company's internal control procedures and risk management system.

SCOPE OF WORK OF ASIAN ALLIANCE (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Asian Alliance (HK) CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Asian Alliance (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Asian Alliance (HK) CPA Limited on the preliminary announcement.

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

Hong Kong, 23 March 2020

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