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LUK HING ENTERTAINMENT GROUP



ANNUAL REPORT 2016

LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED
陸慶娛樂集團控股有限公司

Incorporated in the Cayman Islands with limited liability | Stock Code: 8052

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Choi Yiu Ying (*Chairman and Chief Executive Officer*)
Mr. Choi Siu Kit
Mr. Yeung Chi Shing

Non-executive Directors

Mr. Au Wai Pong Eric
Mr. Au Ion Weng
Ms. Poon Kam Yee Odilia

Independent Non-executive Directors

Mr. Lam Wai Chin Raymond
Mr. Chan Ting Bond Michael
Mr. Tse Kar Ho Simon

BOARD COMMITTEES

Audit Committee

Mr. Chan Ting Bond Michael (*Chairman*)
Mr. Lam Wai Chin Raymond
Mr. Au Wai Pong Eric

Remuneration Committee

Mr. Lam Wai Chin Raymond (*Chairman*)
Mr. Tse Kar Ho Simon
Mr. Au Wai Pong Eric

Nomination Committee

Mr. Choi Yiu Ying (*Chairman*)
Mr. Lam Wai Chin Raymond
Mr. Tse Kar Ho Simon

COMPANY SECRETARY

Ms. Li Oi Lai

COMPLIANCE OFFICER

Mr. Choi Siu Kit

AUTHORISED REPRESENTATIVE

Mr. Choi Siu Kit
Ms. Li Oi Lai

COMPLIANCE ADVISER

China Everbright Capital Limited (up to 11 February 2017)
Innovax Capital Limited (starting from 12 February 2017)

AUDITORS

HLB Hodgson Impey Cheng Limited

LEGAL ADVISORS

Hong Kong Law

Mayer Brown JSM

Macau Law

Leong Hon Man Law Office

PRC Law

Jingtian & Gongcheng

PRINCIPAL BANKERS

Bank of East Asia Limited
Bank of China Limited Macau Branch

REGISTERED OFFICE

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Hong Kong

Room 1505, 15/F., Shun Tak Centre West Tower
168–200 Connaught Road Central
Sheung Wan
Hong Kong

Macau

Suite 2105–2, 2/F.
The Boulevard
City of Dreams
Cotai
Macau

CORPORATE INFORMATION

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8052

WEBSITE

www.lukhing.com

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the Board, I am pleased to present the first annual report of the Company and its subsidiaries for the year ended 31 December 2016, after our successful listing on the GEM on 11 November 2016. The Group is a premium clubbing and entertainment business operator. During the year, the Group continued to engage in the operation of clubbing business and organising music-related featured events.

BUSINESS ENVIRONMENT AND DEVELOPMENT

Clubbing Business

During the year, the Group derived most of its revenue from the clubbing business. In 2016, the Group continued to operate its clubbing business through Club Cubic Macau. Macau's economy shrunk by 1.2%, 21.5% and 2.1% in 2014, 2015 and 2016, respectively. The competition in the clubbing industry is expected to intensify due to the increase of the clubbing venues in Macau, including the official opening of largest clubbing venue in terms of gross floor area in January 2016. Despite such challenging macro-environment, the Group managed to record a roughly stable customer visits and revenue from Club Cubic Macau, which has been acting as the cash cow to support the Group's development. This is likely due to the effort of Macau government's development of non-gaming entertainment, resulting in increase in proportion of tourists for non-gambling related activities such as concerts and entertainment events, who also have a high propensity to visit clubbing venues. The steady growth in local private consumption expenditure since 2010 also suggests that the local Macanese, enjoying higher disposable income, could increase spending on entertainment, including activities such as clubbing. On the other hand, we differentiated ourselves from our competitors and achieved positive results by strategically focusing on organising featured events¹ with internationally renowned disc jockeys (DJs) and artists with high popularity and media interest.

Since the opening of Club Cubic Macau in 2011, we have strived to develop Club Cubic as a brand to offer premium and high end clubbing and entertainment experience by providing a sensational clubbing venue and live entertainment space of stylish and lighting coupled with music and live performances for its customers. We believe that there are also ample opportunities in regions other than Macau. Leveraging on the established brand name of Club Cubic, we explore the opportunities to expand the Group's coverage to markets with business potential such as the PRC. Steady economic growth, rapid urbanization and a growing middle class population in the PRC all contribute positively to increasing disposable income and entertainment needs, which are two important factors that drive demand in the night entertainment industry. Taking into account the balance of investment risk, capital requirement and familiarity with local environment, we intend to establish a PRC company, in which the Group shall strategically hold less than 20% interest, with local business partners in the first half of 2017 for the operation of Club Cubic Zhuhai. We shall license our Cubic trademarks to the proposed new company and provide it with consultancy services relating to the operation of the clubbing business including management, financial and marketing services and in return we shall receive a monthly royalty fee and management fee.

In addition to our own Cubic brand name, we also exploring the PRC premium clubbing and entertainment market by bringing the Monkey Museum brand, a brand of prestigious and fascinating night club, to the PRC. We have entered into an exclusive master franchising agreement in December 2016 in respect of the franchising of the Monkey Museum brand in the PRC, Hong Kong and Macau for an initial term of ten years. Pursuant to the agreement, the Group is responsible for identifying and recruiting suitable sub-franchisees and in return we will receive a portion of the franchising fee, which normally includes a start-up joining fee and a monthly fee based on the night club's revenue.

¹ Featured events refer to events which we specifically organise and not our regular events, and are usually held on Fridays, Saturdays, or during festivals and major functions in Macau.

LETTER TO THE SHAREHOLDERS

Event Organising

Leveraging on our success in clubbing business, we are also engaged in organising music-related featured events to offer music entertainment to our customers. In general, our Group conducts the overall organisation, ranging from sourcing of DJs, marketing, ticketing, stage design and set up. In respect of featured events which we engaged internationally renowned DJs and artists to perform, we in general charge a higher entrance fee per guest, a higher minimum charge for reserving a table or private karaoke room and a higher rate for corporate customers to sponsor the event. Hence it would benefit our Group by increasing the average spending per retail customer and average sponsorship fee per corporate customer.

During the year, we continued to strategically focus on organising featured events with DJs and artists of high popularity and media interest. We held 5 more featured events at Club Cubic Macau in 2016 when compared to 2015. In addition, having successfully organised the Road to Ultra event at Club Cubic Macau in June 2015, which was the first Road to Ultra event hosted in the Greater China region (excluding Taiwan), we organised last year's Road to Ultra event in the Nursery Park at the West Kowloon Cultural District in Hong Kong on 17 September 2016. The 2016 Road to Ultra Hong Kong event was of a larger scale and with larger venue capacity than that held in Club Cubic Macau in last year, with approximately 6,800 tickets sold, boosting the turnover of the Group in 2016. We are also able to accumulate valuable experience to organise events outside Club Cubic Macau. In 2016, the Group has also entered into strategic cooperation agreements with a local music magazine and a renowned event production house based in Hong Kong respectively, pursuant to which each of them will invite the Group to co-invest in event which it invests or organises in Hong Kong or Macau.

OUTLOOK

2016 has been a milestone year for us, in which our Shares got listed on GEM, pioneering as the second entertainment clubbing business operator to go public in Hong Kong. The Listing not only laid a strong foundation for the Group's future expansion and organic growth, but also provided an indirect complimentary advertising to raise our Group's brand awareness and publicity. We successfully raised net proceeds of about HK\$65.6 million which could equip the Group for enlarging its operation.

Although the Macau economy continued to decline in 2016, there are signs that its economy has bottomed out during the year. With the development of Cotai area and new attractions, as well as improvement in infrastructure such as the Hong Kong-Zhuhai-Macau Bridge and the Macau Light Rapid Transit System, we believe that there is ample room for growth and expansion of Club Cubic Macau. In March 2016, we have exercised the option to extend the Operating Agreement of Club Cubic Macau to March 2020, According to the new supplemental agreement made in August 2016, in order to renew for a further extended term to March 2025, the Group has to invest not less than MOP 15 million to complete the first phase expansion and we are given the right to invest not less than MOP 5 million in the second phase expansion. We have served the further renewal notice in September 2016 and intend to apply about HK\$32.3 million from the net proceeds for such expansions.

The Group has been licensed to organise the Road to Ultra event annually until 2019. Leveraging on the valuable experience from organising the 2016 Road to Ultra in West Kowloon, and with the strategic cooperation agreements entered into between the Group and a local music magazine and a renowned event production house, we will continue to devote more attention and resources and explore possibilities of engaging in suitable events. We intend to apply about HK\$13.8 million from the net proceeds for such purpose.

LETTER TO THE SHAREHOLDERS

We are eager to extend our operations and business outside Macau and we believe that there is enormous business potential in the PRC. Our Listing status facilitates our negotiation with business partners to explore opportunities there. We have already achieved remarkable progress in bringing the Monkey Museum brand to the PRC and have successfully identified a sub-franchisee for the opening and operation of Monkey Museum Changsha in January 2017. We will continue to actively seek for suitable locations and sub-franchisees to further expand the Monkey Museum brand to other parts of the country. At the same time, we also endeavour to introduce our own Club Cubic brand to the PRC and strive to speed up the establishment of aforementioned Club Cubic Zhuhai in 2017. We intend to apply about HK\$13.0 million from the net proceeds for expansion in regions other than Macau.

Since the commencement of our business, our revenue was mainly generated from only one club, Club Cubic Macau. We believe our revenue can be boosted with the introduction of more brands and increasing geographic coverage. Going forward, the management will continue to prudently identify any suitable business opportunities, including those in the PRC and Hong Kong, to further diversify our sources of revenue, taking into account the funding requirement and the associated business risk.

APPRECIATION

Last but not the least, our successful Listing is undoubtedly the corollary of the dedication and contribution of our staff and I would like to express my gratitude for their hard work. I also wish to thank all shareholders, customers, suppliers, business partners, bankers and government authorities for their support and confidence in the Group.

Mr. Choi Yiu Ying

Chairman and Chief Executive Officer

Hong Kong, 28 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2016, the Group continued to engage in the operation of clubbing and organising music-related featured events.

BUSINESS REVIEW

Revenue generated from our clubbing business and event organisation was primarily sale of beverage and entrance fees from retail customers. Amongst different types of beverage sales, champagne remained the best selling one in 2016, with Perrier-Jouët Champagne being the most popular item. Despite the increase in competition in Macau's clubbing industry, we have differentiated ourselves from our competitors and achieved positive results by strategically focusing on organising featured events. We organised 52 featured events in Club Cubic Macau in 2016, which is 5 more than 2015. Accordingly, we managed to record customer visits¹ of approximately 134 thousands in 2016, which remained roughly stable as compared to approximately 132 thousands in 2015. The average spending per approximate number of customer visit² remained at around eight hundred Hong Kong dollars in 2015 and 2016. We generally charge a higher entrance fee per guest and a higher minimum charge for reserving a table or private karaoke room. We organised 2016 Road to Ultra event in the Nursery Park at the West Kowloon Cultural District in Hong Kong in September 2016, which was of larger scale and with larger capacity than that held in Club Cubic Macau in 2015. We sold approximately 7 thousand tickets in the 2016 Road to Ultra event, which included general admission tickets and VIP tickets ranged from around HK\$700 to HK\$2,600 per ticket, as well as table packages (inclusive of entrance tickets and beverages) ranged from around HK\$40,000 to HK\$90,000 per table.

We received our sponsorship income from corporate customers and beverage suppliers, comprising fee for displaying their logos and products during the events and incentive based on our purchase amount from the beverage suppliers. For attracting customer traffic to Club Cubic Macau and City of Dreams, COD has organised the Taboo show and rented Club Cubic Macau as the venue to host the show. The Taboo show ended in March 2016 and such events rental relationship and the associated events rental income has ended accordingly.

During the year ended 31 December 2016, we have been exploring opportunities to introduce our own Club Cubic brand and Monkey Museum brand to the PRC and signed two memorandum of understanding with our business partners in late 2016. However, we have not yet recorded any income in 2016 regarding such business opportunities.

¹ Customer visit refers to the number of entries into the club premises of Club Cubic Macau. For the avoidance of doubt, if a guest entered into and left the club several times in one night, it will be counted as multiple number of customer visits.

² Average spending per approximate number of customer visits is calculated by dividing our total income from retail customers including (i) sales of beverage and other products; (ii) entrance fees income; and (iii) cloakroom income by our customer visits at Club Cubic Macau.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Other Income and Gain

Total revenue of the Group increased by about HK\$3.8 million or 3.0% from approximately HK\$125.5 million in 2015 to approximately HK\$129.3 million in 2016. The increase was mainly contributed by the aforementioned 2016 Road to Ultra Hong Kong, which was of a larger scale than the 2015 Road to Ultra held in Club Cubic Macau and significantly boosted our entrance fees income and our sales of beverage and other products. Sales of beverage and other products and entrance fees income contributed by the 2016 Road to Ultra Hong Kong event were approximately HK\$1.6 million and approximately HK\$6.7 million more than that contributed by the 2015 Road to Ultra event, respectively. However, such increases were partially offset by the drop in sponsorship income of approximately HK\$2.7 million, which was mainly due to the decrease in sponsorship for 2016 Road to Ultra event when compared to the 2015 Road to Ultra event, as the event was first held outside our established Club Cubic brand in Macau. In addition, our events rental income from the abovementioned Taboo show held in Club Cubic Macau dropped by approximately HK\$2.3 million in 2016, as the Taboo show ceased to be performed since April 2016.

Other income and gain remained roughly stable at around three million Hong Kong dollars for both 2015 and 2016.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It increased by about HK\$2.0 million or 9.2% from approximately HK\$21.7 million in 2015 to approximately HK\$23.7 million in 2016, whereas the gross profit margin decreased by about 1.4 percentage points from approximately 77.6% in 2015 to approximately 76.2% in 2016. It is because we offered free drinks in certain featured events to attract more customers. In addition, the 2016 Road to Ultra Hong Kong event, which was held outside our established Club Cubic brand in Macau, had a relatively lower gross profit margin at around 70%.

Staff costs notably increased by about HK\$6.9 million or 29.9% from approximately HK\$23.1 million in 2015 to approximately HK\$30.0 million in 2016. It was mainly because, in the preparation for the Listing, certain employees who had been previously employed by a related company, at a consulting fee, to provide operation, marketing and administrative services to the Group, were hired by the Group directly since 2016. The relevant consulting fee, which was classified under other operating expenses in 2015, amounted to approximately HK\$7.4 million for the year ended 31 December 2015. We ceased to pay such consulting fee in 2016. Excluding such effect, we incurred less staff costs in 2016 as we saved the relevant staff costs for the aforementioned Taboo Show which ceased performance since April 2016.

Depreciation and amortisation remained stable at approximately HK\$2.0 million for both 2015 and 2016.

Property rentals and related expenses increased slightly by about HK\$0.1 million from approximately HK\$13.3 million in 2015 to approximately HK\$13.4 million in 2016. Unlike 2015, we saved contingent rental in 2016 when the Ultra event was not held inside Club Cubic Macau. However, such savings were offset by the increase in venue rentals and related expenses for the event in 2016, which was held in Hong Kong West Kowloon, amounted to approximately HK\$1.2 million, and the additional rentals of approximately HK\$1.0 million for our Hong Kong office as we rented directly from the landlord since 1 March 2016.

Advertising and marketing expenses increased by about HK\$2.4 million or 11.4% from approximately HK\$21.0 million in 2015 to approximately HK\$23.4 million in 2016 as we strategically held more events to differentiate ourselves from our competitors. In 2016, we held 1 outdoor event in Hong Kong and 52 featured events in Club Cubic Macau, which was 5 more than 2015.

Other operating expenses decreased by about HK\$5.6 million or 16.0% from approximately HK\$35.1 million in 2015 to approximately HK\$29.5 million in 2016. It was mainly because we ceased to pay the aforesaid consulting fee to a related company.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2016, we have utilized our overdraft facility of approximately HK\$3 million and incurred finance cost of approximately HK\$15 thousands. As at 31 December 2016, the overdraft was fully repaid and we had unutilized facility of HK\$3 million, for which the Company provided its corporate guarantee.

Listing Expenses and Loss Attributable to the Owners of the Company

We recorded a net loss of approximately HK\$6.2 million in 2016, whereas we recorded a net profit of approximately HK\$9.4 million in 2015. As disclosed in the Prospectus, the listing expenses would have a significant financial impact on our financial performance. In respect of the Listing on 11 November 2016, we recognized non-recurring listing expenses of approximately HK\$2.5 million and approximately HK\$16.2 million in 2015 and 2016 respectively. Following the Listing, we also incurred additional compliance costs¹ of approximately HK\$1.2 million in 2016. Excluding these expenses and without taking into account the relevant impact of taxation, our adjusted net profit would remain at a similar level at approximately HK\$11.9 million and HK\$11.2 million in 2015 and 2016, respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Below is a summary of the key financial ratio:

	Notes	As at 31 December 2016	2015
Current ratio	1	4.4	1.3
Quick ratio	2	4.2	1.2
Gearing ratio	3	21.4%	66.9%

Notes:

1. Current ratio is calculated by dividing total current assets by total current liabilities as at the respective period end
2. Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the respective period end
3. Gearing ratio is calculated by dividing total liabilities by total assets as at the respective period end

The above key financial ratio demonstrated that the liquidity and gearing of the Group remained healthy in 2016. The Group generally financed its daily operations from internally generated cash flows. The shares were listed on GEM on 11 November 2016 and the capital structure of the Company comprised ordinary shares. Upon Listing, we obtained net proceeds of approximately HK\$65.6 million from the issue of a total of 450,000,000 new ordinary shares of the Company at the placing price of HK\$0.21 per share under the placing as set out in the Prospectus. The remaining unused net proceeds as at 31 December 2016 were placed as interest bearing deposits with licensed bank in Hong Kong and Macau. As at 31 December 2016, the Group had cash and cash equivalents of approximately HK\$73.9 million (2015: HK\$21.0 million) and did not have any outstanding amounts of short-term or long-term bank borrowings or any loan arrangement containing any covenant, except the aforementioned unutilized overdraft facility of HK\$3 million, for which the Company provided its corporate guarantee. The level of cash and cash equivalents and the recurring cash inflows from our core business can equip the Group to develop and expand its operation.

CHARGES ON ASSETS

As at 31 December 2016 and 2015, the Group did not have any charges on its assets.

¹ The costs included 2016 listing fee, audit fee to Group auditors, retainer fees to compliance advisor, legal advisor and secretarial firm, production fee to financial printer for result announcements, additional director fees and compliance staff cost.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS AND COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The net proceeds from the issue of a total of 450,000,000 new ordinary shares of the Company at the placing price of HK\$0.21 per share under the placing as set out in the Prospectus, after deducting underwriting commission and other expenses relating to the Listing, amounted to approximately HK\$65.6 million. The net proceeds were intended to be applied in the same proportion and in the same manner as shown in the Prospectus with estimated net proceeds amounted to HK\$76.0 million, which was made under the assumption that the placing price would be HK\$0.23 per share, being the mid-point of the indicative placing price range. Accordingly, approximately 49.2% (HK\$32.3 million), 21.0% (HK\$13.8 million), 19.8% (HK\$13.0 million) and 10.0% (HK\$6.5 million) will be applied for (i) expansion of the scale of Club Cubic Macau, (ii) organising events in venues other than Club Cubic Macau, (iii) expansion in regions other than Macau, and (iv) working capital and general corporate use respectively. An analysis of the utilization of the net proceeds during the year is set out below:

Business objective and strategy	Amount of usage of net proceeds up to 31 December 2016 ⁴		Notes
	Planned	Actual	
	HK\$' million	HK\$' million	
(i) Expansion of the scale of Club Cubic Macau	7.8	3.9	1
(ii) Organising events in venues other than Club Cubic Macau	–	–	
(lii) Expansion in regions other than Macau	1.6	0.2	2
(iv) Working capital and general corporate use	2.2	2.2	
Total	11.6	6.3	

Notes:

- We have engaged designers and consultants for the layout plan but COD needed more time to approve the plan. Accordingly, no renovation and decoration works have been carried out, resulting in less actual spending. We anticipate the opening of first phase expansion is likely delayed and we currently expect that it will be opened by January 2018.
- We have performed site visits to the PRC and engaged consultants and legal advisors to advise our proposed operations in the PRC. It took relatively more time to determine and establish the suitable form of vehicles for the PRC operation. We also need more time to negotiate the contract terms with our cooperation partners to minimize our risk exposure. We have successfully identified a sub-franchisee for the opening and operation of Monkey Museum Changsha in January 2017 and we expect to establish Club Cubic Zhuhai in 2017.

The remaining unused net proceeds as at 31 December 2016 were placed as interest bearing deposits with licensed bank in Hong Kong and Macau and they are expected to be applied according to the intended usage stated in the Prospectus.

⁴ The planned amount of usage of net proceeds up to 31 December 2016 has been adjusted in the same proportion and the same manner as stated in the Prospectus due to the above-mentioned difference between the estimated net proceeds and the actual net proceeds received.

MANAGEMENT DISCUSSION AND ANALYSIS

The business objective, future plan and the planned amount of usage of net proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry. An analysis comparing the business objective stated in the Prospectus with the Group's actual business progress is set out below:

Business objective and strategy	Business plan and activity	Actual business progress up to 31 December 2016
(i) Expansion of the scale of Club Cubic Macau	<ul style="list-style-type: none"> — set up project team — engage designers and consultants for the layout plan — carry out renovation and decoration — commence the application of relevant licenses for the operation of the new expansion area 	<ul style="list-style-type: none"> (1) We have set up a project team and seek quotations from various designers, consultants and other suppliers. (2) We have engaged designers and consultants for the layout plan and the application of relevant licenses. (3) No renovation and decoration works have been carried out as the layout plan has not yet been approved by COD.
(ii) Organising events in venues other than Club Cubic Macau	<ul style="list-style-type: none"> — commence planning of 2017 events 	We have set up a project team to plan the 2017 Road to Ultra event.
(iii) Expansion in regions other than Macau	<ul style="list-style-type: none"> — conduct market research on potential markets — conduct feasibility studies by engaging consultants and legal advisors — perform site visits — explore opportunities with cooperation partners and sign memorandum of understanding ("MOU") and agreement 	<ul style="list-style-type: none"> (1) We have conducted market research and performed site visits to the PRC, including cities such as Beijing, Changsha, Zhuhai and Shenzhen. (2) We engaged consultants and legal advisors to advise our proposed operations in the PRC. (3) We have signed 2 MOUs in 2016 to explore opportunities to introduce our own Club Cubic brand and Monkey Museum brand to the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

Below is a summary of certain principal risks and uncertainties, which may materially and adversely affect the achievement of our business progress:

- (1) In order to further extend our Operating Agreement of Club Cubic Macau from March 2020 to March 2025, we have to open the first phase of expansion on or before 1 October 2017 (subject to COD not unreasonably withholding the approval of the layout plan and relevant licenses should have been obtained from the relevant government authorities, otherwise the opening date shall be postponed to 1 November 2017, or such other date agreed between the parties). The investment for the first phase expansion shall not be less than MOP15 million. As COD needs more time to approve the layout plan, we anticipate that it is likely that opening of first phase expansion will be delayed and we currently expect that it will be opened by January 2018, which is agreed by COD. Our expansion plan also requires significant development and renovation of the extension before opening. It may take longer than our expectation to implement our expansion plan and there may be unforeseen delays before the extension can operate and can be open for business, including but not limited to difficulties and delay in the process of obtaining the relevant licenses and approvals.
- (2) A significant portion of our revenue was derived from Club Cubic Macau. Any significant operational or other difficulties in the business at or from Club Cubic Macau, including those matters affecting the execution of Operating Agreement, may reduce, disrupt or halt our operation and business at the premises, which would materially and adversely affect our business, prospects, reputation, financial condition and results of operation. The competition in Macau clubbing industry is expected to intensify due to the increase in the number of the clubbing venues. The performance of Club Cubic Macau is also affected by the macro environment of Macau.
- (3) Our largest supplier and our five largest suppliers accounted for 71.2% and 92.9% of our total purchases for the year ended 31 December 2016, respectively. We make purchases from these suppliers either under annual contract or individual purchase order, and have not entered into any long-term contracts. We also recorded sponsorship income from our largest supplier, amounted to approximately HK\$9.5 million. In the event that our business relationship with these suppliers is terminated, we may not be able to have sufficient supply of products of similar quality and brand name, at sufficient quantity and on similar terms. We may also not be able to find another supplier which could provide similar level of sponsorship.
- (4) We plan to diversify our sources of revenues and mitigate our risks of over-reliance on Club Cubic Macau. We have relatively limited experience in holding events outside Club Cubic Macau. Our outdoor events may be seriously affected by weather conditions or incidents. In addition, when expanding to regions other than Macau, we are relatively not familiar with the local business environment. We may not be able to detect, deter and prevent all instances of infringement, illegal activities or other misconducts committed in such jurisdictions which may harm our reputation and affect our brand name.

To address the above risks and uncertainties, the Directors will closely monitor the progress of the expansion plan of Club Cubic Macau and continue to negotiate with COD to speed up the approval of the layout plan. The Directors will also continue to explore opportunities to diversify our operation such that we can reduce our reliance on Club Cubic Macau and our largest suppliers. For outdoor events held outside Club Cubic Macau, we will purchase appropriate insurance coverage, such as event cancellation insurance, at a reasonable cost. When holding events outside Club Cubic Macau and expanding to regions other than Macau, we may also continue to work with business partners or investors which are more familiar with local environment to mitigate our risk exposure. The Directors will continue to review and evaluate the business objective and strategy and may fine-tune the timing of execution and utilization of the net proceeds when necessary, taking into account the business risks and market uncertainties. A more detailed discussion of the Group's risks associated with our business and industry were disclosed in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2016 and 2015, most of the Group's transactions are denominated and settled in its functional currency, MOP and reporting currency, HK\$. As historically there has been very limited exchange fluctuation between MOP and HK\$, the Company considered that the Group was not exposed to material foreign currency exchange risk. The Group currently has not implemented any foreign currency hedging policy and the management will consider hedging against significant foreign exchange exposure should the need arise.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Saved for those disclosed in this annual report, the Group did not have any material contingent liabilities or capital commitment as at 31 December 2016 and 2015.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In preparation for the Listing, the Group underwent corporate reorganisation, details of which are disclosed in the Prospectus. Save for those disclosed in the Prospectus and this annual report, there were no other significant investments held by the Group as at 31 December 2016 and 2015, nor were there other material acquisitions and disposals of subsidiaries by the Group during the year. Apart from those disclosed in the Prospectus and this annual report, there was no other plan authorized by the Board for other material investments or additions of capital assets at the date of this annual report.

DIVIDEND

Prior to the corporate reorganisation disclosed in the Prospectus, Luk Hing Investment Limited had declared dividends in aggregate amounts of HK\$7,832,000 and HK\$5,807,000 to its then shareholder during the year ended 31 December 2015 and 2016 respectively.

No dividend has been paid or proposed by the Company since its date of incorporation. The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. Choi Yiu Ying (蔡耀陞) (with former names Choi Siu Man (蔡紹文) and Choi Siu Ying (蔡兆鉞)) (“Mr. Simon Choi”), aged 40, was appointed as our Director on 19 January 2016. He was re-designated as our executive Director and our chairman of the Board on 2 March 2016, and is primarily responsible for overall strategic planning and supervising daily operation of our Group. He has joined our Group as our chief executive officer since May 2010, with responsibilities to, among others, develop business plans, manage staff members, oversee daily operation and cost and budget control. He has also been a director of certain subsidiaries of the Group.

Mr. Simon Choi has over 15 years of experience in the restaurant and bar and clubbing industry in Hong Kong and Macau. Since January 2001, he has invested in and was responsible for the management and operation of various bars and restaurants, such as (i) Shelter Lounge in Causeway Bay, Hong Kong (from January 2001 to December 2015), (ii) Census Lounge in Causeway Bay, Hong Kong (from October 2005 to December 2015), (iii) House Lounge in Causeway Bay, Hong Kong (from July 2006 to December 2015), (iv) Habitat Japanese Restaurant in Wanchai, Hong Kong (from December 2008 to April 2015), and (v) Shelter Italian Bar & Restaurant in Causeway Bay, Hong Kong (since May 2013), and he was also involved in the management of Old Cubic, acting as a managing director from its opening in December 2008 until May 2010.

Mr. Simon Choi received a bachelor degree of engineering from the City University of London, United Kingdom in June 2001. He is the elder brother of Mr. John Choi, one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Perfect Succeed Limited (“Perfect Succeed”) and Welmen Investment Co. Ltd (“Welmen”), and a director and an indirect shareholder of Toprich Investment (Group) Limited (“Toprich”), Ocean Concept Holdings Limited (“Ocean Concept”) and Yui Tak Investment Limited (“Yui Tak”).

Mr. Choi Siu Kit (蔡紹傑) (“Mr. John Choi”), aged 39, was appointed as our Director on 30 November 2015. He was re-designated as our executive Director on 2 March 2016. He was also appointed as the compliance officer of our Company on 2 March 2016 and is currently the authorized representative of the Company. Mr. John Choi is primarily responsible for overall strategic planning and supervising marketing and entertainment aspects of our Group. He has joined our Group as our managing director since May 2010. He has been responsible for overseeing daily operation, developing business strategies, building client relationships and business reputation, liaising with suppliers and relevant government departments and implementing the overall business strategies. He has also been a director of certain subsidiaries of the Group.

Mr. John Choi has over 15 years of experience in the restaurant and bar and clubbing industry in Hong Kong and Macau. Since January 2001, he has invested in and was responsible for the management and operation of various bars and restaurants, such as (i) Shelter Lounge in Causeway Bay, Hong Kong (from January 2001 to December 2015), (ii) Census Lounge in Causeway Bay, Hong Kong (from October 2005 to December 2015), (iii) House Lounge in Causeway Bay, Hong Kong (from July 2006 to December 2015), (iv) Habitat Japanese Restaurant in Wanchai, Hong Kong (from December 2008 to April 2015), and (v) Shelter Italian Bar & Restaurant in Causeway Bay, Hong Kong (since May 2013), and he was also involved in the management of Old Cubic, acting as a managing director from its opening in December 2008 until May 2010.

Mr. John Choi received a bachelor degree in engineering from Queen Mary and Westfield College, University of London, United Kingdom in July 2001. He is the younger brother of Mr. Simon Choi, one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Perfect Succeed and Welmen, and a director and an indirect shareholder of Toprich, Ocean Concept and Yui Tak.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yeung Chi Shing (楊志誠), aged 46, was appointed as our Director on 19 January 2016. He was re-designated as our executive Director on 2 March 2016, and is primarily responsible for overall administration of our Group. He joined our Group as our administrative director since January 2011 and has been responsible for, among others, directing activities of subordinate staff, providing leadership to the managers of the administration, supervising administrative matters of the club and developing company policies.

Prior to joining our Group, Mr. Yeung served as a sales executive in PCCW Limited, a company listed on the main board of the Stock Exchange (stock code: 0008) which is principally involved in provision of telecommunications and information technology, from November 1989 to September 2004, where he was responsible for marketing of telecommunication products and services. From March 2005 to January 2008, Mr. Yeung worked at Mocha Clubs, Melco Crown Gaming (Macau) Limited, an operator of casino gaming and entertainment casino resort facilities, as a floor manager of gaming operations department where he supervised the operation of the gaming floor.

Mr. Yeung attended secondary school education and graduated from Man Kiu College, Hong Kong, in July 1988. He is one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Welmen.

Non-executive Directors

Mr. Au Wai Pong Eric (區偉邦) ("Mr. Eric Au"), aged 49, was appointed as a non-executive Director of our Company on 2 March 2016, and is primarily responsible for overseeing management and strategic planning of our Group.

Mr. Eric Au has extensive experience in real estate management and investment. From July 1996 to March 2000, he joined Chi Cheung Investment Company Limited (stock code: 0112), (now known as LT Commercial Real Estate Limited), the shares of which are listed on the main board of the Stock Exchange which is primarily engaged in property development, as a project manager where he directed the project development department in project management, marketing and sales activities. During the eight years from April 2000 to July 2008, Mr. Eric Au worked in the real estate investment industry and had served as a project director in Global Gateway, L.P. and the Pioneer Global Group Limited as well as the general manager in Gaw Capital, where he had been responsible for project management, acquisitions and asset management in general. Since July 2008, he served as the regional director of LaSalle Investment Management, being a private equity investment arm of Jones Lane LaSalle Limited, a real estate investment management firm.

Mr. Eric Au graduated from the Rhode Island School of Design, the United States, with a bachelor degree of fine arts in June 1991 and a bachelor degree of architecture in May 1992. Mr. Eric Au has been a member of Hong Kong Institute of Architects since May 1998. He is one of the Controlling Shareholders and an indirect shareholder of our Company and a shareholder of Welmen.

Mr. Au Ion Weng (歐潤榮), aged 61, was appointed as a non-executive Director of our Company on 2 March 2016, and is primarily responsible for overseeing management and strategic planning of our Group. Mr. Au is the father of Mr. Jerry Au, who is a shareholder of Welmen, which is a Controlling Shareholder of the Company.

Mr. Au has been the managing director of Veng lao Investment Company Limited since May 1996. He was a member of the Selection Committee for the 4th Chief Executive of the Macau special Administrative Region in May 2014. In January 2013, he was also appointed as a member of the 11th Committee of Shandong Province Committee of the Chinese People's Political Consultative Conference. He was appointed as a member of Zhong Shan, Guangdong Province Committee of the Chinese People's Political Consultative Conference in January 2012. Mr. Au completed secondary education in 澳門海星中學 (Macau Hai Xing Secondary School*) in Macau.

* For identification purpose only

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Poon Kam Yee Odilia (潘錦儀), aged 56, was appointed as a non-executive Director of our Company on 2 March 2016, and is primarily responsible for overseeing management and strategic planning of our Group. Ms. Poon is the sister of Mr. Poon Ching Tong Tommy, who is the sole shareholder of Kenbridge Limited, which is a shareholder of the Company.

Ms. Poon has extensive experience in marketing and promotion as well as in human resources management and consultancy. From April 1988 to January 1994, she served Rothmans (Far East) Limited with her last position as the marketing manager. She then joined Tait (HK) Ltd from February 1994 to August 1996 as a sales and marketing director. From September 1996 to July 1997, she served as a promotion and packaging director in Pepsico. Inc. During August 1997 to December 1998, she worked as a marketing director for Carlsberg Brewery Hong Kong. From May 1999 to April 2005, she was employed by Hudson Global Resources (HK) Ltd with her last role as a country manager. During April 2005 to October 2005, she then joined Agilent Technologies Hong Kong Ltd as the staffing manager. From November 2005 to July 2013, she worked at Talent 2 Shanghai Co., Ltd and held positions of operations director of the recruitment managed services division and managing director in China. Since January 2014, she served as a director in Motiva Consulting Limited where she oversees the overall management of the company.

Ms. Poon graduated with a bachelor's degree in business administration from the University of East Asia Macau, Macau in September 1985 and later received a master degree of science, majoring in business studies, from the University of Salford, United Kingdom in July 1987. In June 1990, she obtained a diploma in marketing from the Chartered Institute of Marketing, United Kingdom.

Independent non-executive Directors

Mr. Lam Wai Chin Raymond (林偉展), aged 47, was appointed as an independent non-executive Director of our Company on 18 October 2016 taking effect on 11 November 2016, and is primarily responsible for providing independent judgment to the Board.

Mr. Lam became a barrister and solicitor of the Supreme Court of the Australian Capital Territory, Australia and of the Supreme Court of Victoria, Australia in October 1993 and November 1993, respectively. He also qualified as a barrister in the High Court of Australia in October 1993. He became a solicitor of the Supreme Court in England and Wales in August 1994 and a solicitor of the High Court of Hong Kong in October 1994. Since June 1999, he has been a partner of Messrs. Lam & Lai and serves as a member of the Advisory Panel on Disability Discrimination Ordinance and the Appeal Panel (Housing). Mr. Lam obtained a bachelor degree in laws from the Australian National University, Australia in September 1993 and a master degree in laws from the University of Melbourne, Australia in March 1996.

Mr. Chan Ting Bond Michael (陳定邦), aged 36, was appointed as an independent non-executive Director of our Company on 18 October 2016 taking effect on 11 November 2016, and is primarily responsible for providing independent judgment to the Board.

Mr. Chan has extensive experience in finance. He commenced his career with PricewaterhouseCoopers in Sydney, Australia as a senior associate from February 2000 to February 2006. He then relocated to Hong Kong and joined KPMG as a manager from March 2006 to August 2007. Mr. Chan later joined Ping An of China Asset Management (Hong Kong) Company Limited from August 2007 until March 2011. After serving as vice president in Global Business Development of Ping An of China Asset Management (Hong Kong) Company Limited, he joined Jardine Matheson Group in June 2011. During the tenure, Mr. Chan first served as the corporate finance manager in Jardine Cycle & Carriage Limited in Singapore from June to December 2011, followed by his appointment as the corporate planning director in Dairy Farm Group from January 2012 to March 2014. Subsequently, Mr. Chan was appointed to Zung Fu Group in April 2014, currently serving as general manager, business development.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan became a member of the Chartered Accountants Australia and New Zealand in January 2006 and was awarded fellowship in December 2015. He has been admitted as a member of the Hong Kong Institute of Certified Public Accountants since July 2008 and become a fellow of the institute since July 2015. Mr. Chan became a chartered financial analyst of the CFA Institute in September 2010, qualified as a member of the Chartered Alternative Investment Analyst Association in June 2010, and became qualified as a financial risk manager by the Global Association of Risk Professionals in April 2010. Mr. Chan graduated from the University of New South Wales with a bachelor's degree of commerce (majoring in accounting and finance) in April 2003. In June 2012, he obtained his Executive Master of Business Administration from the Kellogg School of Management of Northwestern University, the United States and the Hong Kong University of Science and Technology.

Mr. Tse Kar Ho Simon (謝嘉豪), aged 59, was appointed as an independent non-executive Director of our Company on 18 October 2016 taking effect on 11 November 2016, and is primarily responsible for providing independent judgment to the Board.

Mr. Tse accumulated extensive experience in organising, logistics, marketing, and coordination of musical events and performances and other promotional and/or marketing events over 17 years. He has served as a director since December 1998 and holds approximately 92.5% shareholding interest in Best Shine Entertainment Limited, and as a director since January 2013 and holds approximately 99.9% shareholding interest in Best Shine (China) Entertainment Limited, and as a director since March 2011 and holds approximately 83.3% shareholding interest in Sky Treasure Entertainment Limited, where he have been engaged in organising, logistics, marketing, and coordination of concerts and other promotional and/or marketing events through these companies. Milestone events of his industry experience include participation in marketing activities in 2008 Beijing Olympics under which Best Shine Entertainment Limited received two awards, namely, "2008 Worldwide Marketing & Commercial Excellence — Best Implementation of Marketing Communication Campaign — Brand COCA-COLA — China — Beijing Olympic Games — 2008 Best in Class" and "2008 Worldwide Marketing & Commercial Excellence — Best Brand Marketing Asset Program — China — COCA-COLA — Beijing Olympic Games — 2008 Best in Class" from Coca-Cola (China) Beverage Ltd for its marketing efforts. Additionally, during December 2010 to December 2011, Best Shine Entertainment Limited, under directorship of Mr. Tse, also coordinated logistics and marketing activities for 1/2 Jacky Cheung Century Tour in Macau, Shenzhen and Guangzhou, a tour concert which was awarded the Guinness World Records as the largest combined audience for a live act in 12 months.

Mr. Tse attended secondary school education in Mansfield College in Hong Kong.

COMPANY SECRETARY

Ms. Li Oi Lai (李愛麗), aged 44, was appointed as the company secretary of our Company on 4 March 2016. Ms. Li is a manager of SW Corporate Services Group Limited. She has over 15 years of experience in auditing, accounting and company secretarial matters. She obtained a bachelor's degree of commerce in accounting from Hong Kong Shue Yan University in October 2010 and a master's degree in professional accounting from the Hong Kong Polytechnic University in November 2003. She became a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom in October 2006, a fellow member of the Association of International Accountants in November 2014 and a fellow member of the Hong Kong Institute of Certified Public Accountants in March 2015. Ms. Li is not an employee of our Company and she can contact Mr. John Choi, our executive Director, in relation to any corporate secretarial matters.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group recognises that transparency and accountability are important to a listed company. Therefore, the Group strives to achieve sound corporate governance standards in order to maintain the trust and confidence of customers, suppliers and employees, as well as other stakeholders. We believe that this can create long term value for the shareholders of the Company and is beneficial for the Group's sustainable growth.

As a company which was newly listed on the GEM on 11 November 2016, the Company took the initiative to adopt and comply with 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 since its Listing, except for paragraph A.2.1 of the CG Code which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman of the Board and the chief executive officer of the Company are both performed by Mr. Choi Yiu Ying (Mr. Simon Choi). The Company considers that having Mr. Simon Choi acting as both the chairman and chief executive officer can provide a strong and consistent leadership to the Group and allow for more effective strategic planning and management of the Group. Further in view of Mr. Simon Choi's experience in the industry, personal profile and role in the Group and historical development of the Group, the Company considers that it is to the benefit of the Group in the business prospects that Mr. Simon Choi continues to act as both the chairman and chief executive officer and the Company currently has no intention to separate the functions of chairman and chief executive officer. Following the Listing, the chairman shall at least annually hold meetings with the non-executive Directors, including the independent non-executive Directors, without the executive Directors present and he shall promote a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors.

BOARD OF DIRECTORS

The leadership, control and supervision of the Company is vested in the Board, which is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance, approving the financial statements and directing and supervising the management of the Group. The Board delegates to the senior management the powers and responsibilities to conduct the Group's day-to-day management and operations and to organise the implementation of the resolutions of the Board. The Board has been regularly provided with management update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group. Where necessary, all Directors can have access to all relevant information and obtain the advice and services of the Company Secretary. The Directors may, where appropriate, seek independent professional advice to ensure compliance with the procedures of the Board and all applicable rules and regulations, at the Company's expense. The Company has arranged appropriate insurance cover in respect of its legal action against its Directors.

The Board is also responsible for the corporate governance functions under the paragraph D.3.1 of the CG Code and will review and monitor the corporate governance principles and practices to ensure compliance. The chairman of the Board takes primary responsibility for ensuring that good corporate governance practices and procedures are established.

CORPORATE GOVERNANCE REPORT

The Board comprises 9 Directors, including 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors, as set out below:

Executive Directors

Mr. Choi Yiu Ying (*Chairman and Chief Executive Officer*)

Mr. Choi Siu Kit

Mr. Yeung Chi Shing

Non-executive Directors

Mr. Au Wai Pong Eric

Mr. Au Ion Weng

Ms. Poon Kam Yee Odilia

Independent Non-executive Directors

Mr. Lam Wai Chin Raymond

Mr. Chan Ting Bond Michael

Mr. Tse Kar Ho Simon

An updated list of Directors identifying their roles and functions has been published on the websites of the Company and the Stock Exchange. The profiles of the Directors, including relationship between Board members, are set out in the section "Profiles of Directors and Senior Management" of this annual report.

The Board has reviewed its diversity and adopted the Board diversity policy since 18 October 2016. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board. The Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The nomination committee will review and monitor the implementation of the Board diversity policy regularly.

Three of the Board members, representing one-third of the Board, are independent non-executive Directors and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise, in accordance with Rule 5.05(1)(2) and 5.05A of the GEM Listing Rules. All of the independent non-executive Directors have been appointed for an initial term of one year and none of the independent non-executive Directors has served the Company for more than 9 years. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent. All independent non-executive Directors are identified as such in all corporate communications of the Company containing the names of the Directors.

CORPORATE GOVERNANCE REPORT

The Company has entered into a service agreement with each of our executive Directors for an initial term of three years whereas all of the non-executive Directors have been appointed for an initial term of two years. All the Directors are subject to retirement by rotation and eligible for re-election in accordance with the Company's articles and association. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company. At the forthcoming annual general meeting of the Company to be held on 16 June 2017, each of Mr. Choi Yiu Ying, Mr. Choi Siu Kit and Mr. Yeung Chi Shing will retire from office as Directors and will offer themselves for re-election. Separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of each of them.

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. Every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment. During the year ended 31 December 2016, all the nine Directors above had attended the training session regarding director's duty which was conducted by the then Hong Kong legal advisors to the Company in preparation of the Listing. Below is a summary of the Directors' participation in continuous professional development in 2016:

- (i) attended director's training
- (ii) read training materials relating to corporate governance practices, relevant legal and regulatory requirements, and director's duties and responsibilities

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Model Code**"). Having made specific enquiries in writing to the Directors, each of the Directors confirmed that he/she had complied with the Model Code in connection with the Company's securities from the date of Listing to year end. The Company has also established written guidelines on no less exacting terms than the Model Code regarding securities transactions by relevant employees (including the employees and directors of the subsidiaries or holding company) who are likely to possess inside information of the Company and/or its securities.

According to paragraph A.1.1 of the CG Code, the Board should meet regularly and the Board meeting should be held at least four times a year at approximately quarterly intervals. Since the Listing in November 2016, the Board held one meeting in 2016 to review and discuss the 2016 third quarterly results of the Group and all the nine Directors above had attended the meeting. No general meeting had been held since the Listing. The first annual general meeting after Listing will be held on 16 June 2017.

BOARD COMMITTEES

As an important part of sound corporate governance practices and for supervision of the overall affairs of the Company in various areas, the Board has established three Board committees, namely, the audit committee, the remuneration committee and the nomination committee. All Board committees have respective specific terms of reference clearly defining their powers and responsibilities, which are posted on the websites of the Company and the Stock Exchange. All the Board committees should report to the Board on their decisions or recommendations made, and where appropriate, can seek independent professional advice to perform their duties at the Company's expense.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The nomination committee is chaired by the chairman of the Board, Mr. Simon Choi, and consists of Mr. Lam Wai Chin Raymond and Mr. Tse Kar Ho Simon, both of whom are independent non-executive Directors. The primary functions of the nomination committee include but not limited to: (i) making recommendations to the Board on matters relating to appointment of Directors; (ii) assessing the independence of independent non-executive Directors; and (iii) reviewing the structure, size and composition of the Board, and monitoring the implementation of the abovementioned Board diversity policy regularly.

According to paragraph A.5.2(a) of the CG Code, the nomination committee should review the structure, size and composition of the Board at least annually and its terms of reference states that its meeting shall be held at least once a year. Although the nomination committee did not hold any meetings in 2016 as the period from the date of Listing to year end was relatively short, the Board had held two meetings in 2016 to select and appoint candidates to the Board, considering the candidate's achievements and experience in our industry, and the relevant management skills and professional background and the time the candidate can devote to the matters of the Group. After year end, the nomination committee held a meeting on 28 March 2017 to recommend to the Board with respect to the retirement and re-election of Directors at the forthcoming annual general meeting.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with paragraph B.1.2 of the CG Code. The remuneration committee is chaired by our independent non-executive Director, Mr. Lam Wai Chin Raymond, and consists of another independent non-executive Director Mr. Tse Kar Ho Simon and a non-executive Director, Mr. Au Wai Pong Eric. The primary functions of the remuneration committee include but not limited to: (i) making recommendations to our Directors on the policy and structure for remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director shall be involved in deciding his or her own remuneration.

According to its terms of reference, the remuneration committee meeting shall be held at least once a year. However, the remuneration committee did not hold any meetings in 2016 as the period from the date of Listing to year end was relatively short. After year end, the remuneration committee held a meeting on 28 March 2017 to review the remuneration packages and emoluments of Directors and senior management. The remuneration of the executive Directors and members of the senior management by band pursuant to paragraph B.1.5 of the CG Code, and particulars regarding remuneration of Directors and the five highest paid employees pursuant to Rules 18.28 and 18.30 of the GEM Listing Rules for the year ended 31 December 2016 have been disclosed in the notes to the consolidated financial statements contained in this Annual Report.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraph C.3.3 and C.3.7 of the CG Code. The audit committee is chaired by our independent non-executive Director, Mr. Chan Ting Bond Michael, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules, and consists of another independent non-executive Director Mr. Lam Wai Chin Raymond and a non-executive Director, Mr. Au Wai Pong Eric. The primary functions of the audit committee include but not limited to: (i) assisting the Board in providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management systems; (ii) overseeing the audit process; and (iii) performing other duties and responsibilities as assigned by the Board.

According to paragraph C.3.3 of the CG Code, the audit committee must meet at least twice a year with the Company's auditors. It may also consider to meet with the auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters that the auditor may wish to raise. As the period from the date of Listing to year end was relatively short, the audit committee just held one meeting in 2016 to review and discuss the 2016 third quarterly results of the Group. All the three audit committee members above had attended the meeting. After year end, the audit committee held two meetings to discuss the 2016 audit scope and arrangement with the auditors prior to audit and review and discuss the 2016 final results of the Group.

RESPONSIBILITY FOR THE FINANCIAL STATEMENT AND REMUNERATION OF AUDITORS

The Directors acknowledge their responsibility for the preparation of the Group's financial statements, which are prepared on a going concern basis. Such responsibility of the Directors, and the responsibilities of the auditors in respect of the financial statements are set out in the report of the auditors of this annual report.

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2016 and recommended approval to the Board.

The financial statements of the Group for the year ended 31 December 2016 were audited by HLB Hodgson Impey Cheng Limited ("**HLB**") whose term of office will expire upon the forthcoming annual general meeting of the Company. The audit committee has recommended the Board the reappointment of HLB as the auditors of the Company at the forthcoming annual general meeting.

A breakdown of the remuneration (including disbursement) paid/payable to the external auditors (including its affiliates) of the Company in respect of audit and non-audit services provided to the Company during the year is set out below:

Items	Fees (HK\$'000)
Audit for the year ended 31 December 2016	700
Services provided for the Listing:	
— as reporting accountants	3,790
— internal control review	300
Total	4,790

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The company secretary of the Company (the “**Company Secretary**”) is Ms. Li Oi Lai, who is a manager of SW Corporate Services Group Limited engaged by the Company and is not an employee of the Group. Details of her background and qualification are set out in the section “Profiles of Directors and Senior Management” of this annual report. She can contact our executive Director, Mr. Choi Siu Kit, in relation to corporate secretarial matters. Ms. Li has provided written confirmation to the Company that she had taken no less than 15 hours of relevant professional training in 2016 and accordingly the Company is of the view that she has complied with Rule 5.15 of the GEM Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

In the course of conducting our business, we are exposed to various type of risks, including business risks, financial risks, compliance risks and operation and other risks. The Company improves its business and operational activities by identifying the area of significant business risks via a regular review and taking appropriate measures to control and mitigate these risks. The Board is ultimately responsible for the risk management of the Group and is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group to ensure efficient and effective use of the Group’s resources to assist the Group in achieving its operation objectives, safeguarding the Group’s assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information and ensuring compliance of the operating activities with laws and regulations. The control system is intended to have in place reasonable safeguards and not absolute assurance against material misstatement or loss, and is designed to manage, rather than eliminate the risk of failing to achieve objective. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

At operational level, a risk management team consists of, among others, our executive Directors and management, who have in general over seven years of experience in our industry or in restaurant business industry. The objectives of the risk management team are to oversee the implementation and monitoring our internal control. The risk management process of the Group will involve, inter alia, (i) a periodical risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) a periodical review of the implementation of the risk management plans and fine tune when necessary. The management also pays particular attention to potential risk exposure in conducting its monthly and quarterly operation analysis, and takes corresponding countermeasures and issues pre-warnings against certain material risks. The Company endeavours to integrate its internal control and risk management with its day-to-day operations, and proactively adopts Information Technology (“IT”) to assimilate the internal control and risk management processes into the IT system.

The Group does not have a formal in-house internal audit department but we have engaged Melco Crown (COD) Hotel Limited to provide services, which include bookkeeping, accounting, internal control, financial policy and procedures, to our major operation, Club Cubic Macau, at a monthly fee. In the course of preparation for Listing and for the year ended 31 December 2016, we also engaged independent internal control reviewers, to assist the Board in assessing the Group’s internal control systems and recommending actions to improve our internal controls. The procedures performed by the internal control reviewers were undertaken with reference to the globally recognized Internal Control — Integrated Framework released by the Committee of Sponsoring Organisations of the Treadway Commission. Result of the reviews were reported to the Board. In response to the defects identified during the assessment, the Company enhanced its checking and supervision and took rectification action, and revised the relevant policies and procedures. The Group’s external auditor contributed an independent perspective on those relevant internal controls arising from the audit and reported its findings to the audit committee, which further reported to the Board after its review and discussion.

CORPORATE GOVERNANCE REPORT

The executive Directors closely monitored the Group's business and corporate developments and events so that potential inside information would be identified promptly. The Company regulates the handling and dissemination of inside information by restricting access to inside information to a limited number of employees and parties on a need-to-know basis. Employees who are in possession of inside information are conversant with their obligations to preserve confidentiality. External parties, such as financial printer, are required to sign confidentiality agreement or non-disclosure agreement. Inside information remains confidential until the disclosure of such information is appropriately approved and the dissemination of such information is efficiently and consistently made. Inside information shall be disseminated via the electronic publication system operated by the Stock Exchange before the information is released via other channels, such as the press or posting on the Company's website.

Based on the above works, the Board has conducted a review of the effectiveness of the risk management and internal control system of the Group pursuant to C.2.1 of the CG Code and considers them effective and adequate. With a view of further enhancing the Group's internal control system on an ongoing basis, the Group will continue to engage external professional advisers to conduct review and consider to establish a formal in-house internal audit department where necessary from time to time, taking into account the development of the business and the scale and complexity of our operation in future.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders, including the holding of forthcoming general meetings and corporate communications published on the Stock Exchange and information disclosed in the Company's website at www.lukhing.com.

Constitutional Documents

During 2016, the Company adopted an amended and restated memorandum and articles of association (the "M&A") which became effective upon Listing. The M&A is published on the websites of the Company and the Stock Exchange.

Shareholders' Rights

There are no provisions governing shareholders' rights to put forward proposals or move resolutions at a general meeting under the M&A or the laws of the Cayman Islands. Shareholders who wish to put forward proposals or move a resolution may however, convene an extraordinary general meeting (the "EGM") to be called by the Board by following the procedures below.

Procedures for Shareholders to convene an EGM (including making proposals/moving a resolution at the EGM) to be called by the Board:

- Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including putting forward proposals or moving a resolution at the EGM.
- Eligible Shareholder(s) who wish to require an EGM to be called by the Board for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Room 1505, 15/F, Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong, for the attention of the Company Secretary.

CORPORATE GOVERNANCE REPORT

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda of the EGM including the details of the business(es) proposed to be transacted at the EGM, signed by the Eligible Shareholder(s) concerned.
- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not convene an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM.
- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the M&A, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

When necessary, Shareholders can send their enquiries and concerns to the Board by addressing them to the Group's principal place of business in Hong Kong at Room 1505, 15/F., Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong, by post or by fax to (852) 2402 1244, for the attention of the Company Secretary.

Shareholders are also encouraged to participate in general meetings. Board members, in particular, either the chairmen of Board committees or their delegates, appropriate management and external auditors will attend annual general meetings to answer Shareholders' questions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

In 2016, the Group was engaged in the operation of clubbing business and organising music-related featured events. Our major business operation was commenced in April 2011. As a group which is in the process of transforming from a startup business to a scalable enterprise, we undoubtedly place a strong emphasis on growth and development, particularly after raising additional funds for development upon Listing. Despite this, the Group is fully aware that the duly performance of corporate governance, environmental and social responsibilities are key to the sustainable development of a listed company. Accordingly, following our Listing on 11 November 2016, the Group strives to build an “eco-friendly” business, and a mutually beneficial relationship with the relevant social organisations and individuals, including our investors, employees, customers, suppliers, communities as well as the public and governmental authorities. We would align our long term corporate development with environment and society. We believe that the economic and efficient use of our resources not only can minimize our impact on the environment and society but also reduce our operating costs. The Group considers our environmental and social responsibilities as the cornerstone for developing our strategies, operations and management.

The Board is ultimately responsible for the Group’s environmental, social and governance reporting and strategy. All of the operations and businesses of the Company and its subsidiaries are under the scope of review and assessment. In managing the priorities, we take into account the relevant materiality assessment and focus on those environmental and social matters that would have significant impact and risks. Details of risk management and internal controls are covered in the “Corporate Governance Report” of this annual report.

ENVIRONMENTAL MATTERS

Aimed at building an eco-friendly business, we endeavour to integrate environmentally friendly measures to reduce the environmental impact of our daily operations. We encourage the economic and efficient use of resources, while enhancing our recycling efforts to prevent the waste of resources. We believe improving consumption of resources, including energy, water, natural resources and other raw materials, can also save our costs of operation.

Due to the nature of our business, certain sewage and garbage, mainly non-hazardous emissions from solid waste, would be produced in our club and the venue where we held our events. The sewage and garbage would be collected daily in our club or immediately after the event was held outside our club to ensure hygiene conditions of the club and event venue. In addition, we have engaged external cleansing companies to conduct pest control and cleansing regularly. Since we only serve beverage products and light food as side dishes and do not maintain a kitchen, we believe that the nature of our business does not involve substantial risks with respect to environmental matters. When organising our events, we have taken into account the suitability of the premises or place to the nature of the activity or event to be held, particularly in terms of floor area, hygiene, safety, location and respect for environmental balance. In the event we have to undertake minor alterations to the natural environment due to event requirements, we will conduct environmental rehabilitation as soon as possible. Our club is located in premise that limit the passage of noise emitted to the outside and we made use of sound insulation and noise absorbents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have taken the following additional measures to reduce the emission of air and greenhouse gas, discharges into water and land, and generation of hazardous and non-hazardous waste, as well as to save energy in our daily operations:

- We encourage the establishment of a waste-classification system and the practice of recycling used papers and double-sided printing in workplace
- We reduce unnecessary business trips and promote the use of information technology such as video conference
- We encourage our staff to take public transportation and minimize the use of private vehicles and taxi
- We appropriately adjust the temperature of our club and offices and switch office equipment to energy-saving mode, such as the automatically power down of printers and computers after a period of inactivity, to economize the use of electricity
- We encourage water-saving habits of our staff

SOCIAL MATTERS

The Group strives to create a harmonious and prosperous society and build mutually beneficial relationships with our stakeholders, including our employees, customers, suppliers, communities, as well as the public and governing authorities. We would align our long term corporate development goal with the society. We believe that our shareholder could reap the rewards of such efforts with higher long term corporate value, which forms part of the overall society benefits.

Employment and Labour Practices

We consider that our employees are important resources and we regard high quality talents as our important assets. As at 31 December 2016, our Group had a total of 143 employees, of which 93 and 50 are male and female employees respectively, and are primarily located in Macau. We actively refine our staff structure by adopting the human resources philosophy of “making the best use of ability” and offer reasonable yet competitive compensation packages. The Group has developed a number of rules and regulations to provide provisions on remuneration, dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity and other benefits as well as welfare for employees. The Group endeavours to create a fair and non-discriminatory atmosphere where male and female staff are equally entitled to employment and promotion opportunities, as well as the prevention of child labour and forced labour.

Our Group pays attention to our quality of service and believes our success will, to a large extent, depend on our ability to recruit and retain a high caliber of employees. In addition, we consider our attentive service is one of the keys to our success, and we strive to retain a sufficient and optimal number of frontline employees such as serving staff and bartenders to meet the expectations of the customers.

Our recruitment and selection process is based on merit, in respect of essential and desirable criteria of the job nature and in line with the policy of equal opportunity. We strike to hire talented employees in the market by offering competitive wages and benefits, focused training and internal promotion opportunities. In addition, our regular on the job training and staff relation activities such as annual staff parties which enable us to maintain a cooperative and caring culture with the employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The human resources department is responsible for employees' training. Our Group has introductory and continuous training programmes for our employees to ensure the consistency of our high quality customer services, introducing our culture and the club premises, and the relevant policies and guidelines in respect of their respective posts. Work safety training are also provided to our operational staff. We review our training programmes based on market trends and updates as well as changes in compliance and regulatory environment. Our Group has implemented customer service and work safety guidelines for all of its employees which set its work safety policies and promote safety on premises, and training will be provided to new employees based on their job nature. We encourage our staff to achieve higher levels of professional and technical practice, with a view to enhancing individual professional competence and productivity. By helping our staff to adapt to changes in society and demands arising from corporate development, we believe that our staff can grow and advance with the Group.

Taking occupational health and safety as one of our prime responsibilities, we have established relevant safety policies and provide training to our staff and in particular to club operation staff. In general, our safety training will be carried out by explaining the safety management policy, case analysis simulation in respect of on-site safety measures and emergency arrangement as well as allocation of responsibilities.

We implement a system that links our employees' remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity. Our employees are entitled to holidays and other employee benefits and welfare under the relevant employment contracts which fulfills the relevant statutory requirement.

In 2016, there had not been any labour strike within our Group and we did not experience any material labour disputes nor any material insurance claims related to employees' injuries. We had not set up any labour union for our staff. We believe that we have maintained a good working relationship with our employees. The Group also did not experience any material safety problems and no material safety accidents occurred due to the fault of the Group. Besides, we regularly monitor information and data related to employment to prevent non-compliance with rules on child labour and forced labour. We are not aware of any material non-compliance with the relevant standards, rules and regulations in relation to our employment and labour practices in 2016.

Operating Practices

One major condition imposed by applicable laws and regulations in respect of our operation includes compliance of relevant safety, hygiene and fire requirements. Our operation manager is responsible to ensure compliance of these requirements by conducting checks and inspections of the club premises regularly. For example, fire escape corridors shall be kept clear from obstruction. Fire extinguishers and other equipment shall be kept at the correct location and that they are accessible and remain free from obstruction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have engaged an independent security company who shall provide a team of 20 security staff, working under the supervision of one of our operation managers. We have established safety and anti-crime manual, which shall be implemented strictly by the security team. We implemented headcounts and ID checking procedures at the entrance of our club premises to ensure the number of guests inside the premises shall not exceed the relevant limit and the customers will reach the age of drinking wine and entering into clubbing venues. We have established bag checking procedures at the entrance such that the entrance security officers shall check the bags of guest to ensure that there is no drug or dangerous item to be brought to into the club premises. Security staff inside the club premises would maintain order inside the club, and attend any scene where fight or any illegal activities such as drug use, theft, harassments occurs and stop such activities promptly in order to ensure the safety of our staff and customers. In addition, security staff would also escort our staff to perform certain duties to ensure their safety particularly staff carrying cash received from our customers for bill settlement and our performers. Safety and security trainings are also provided to our staff regularly to ensure that they are well aware of our safety and security procedures. Fire and evacuation drill is conducted annually. In order to spot potential illegal activities such as fights, drug abuse or theft at an early stage, over 100 CCTV camera are installed inside the club premises. We have designated a team of staff to monitor the CCTV camera systems to ensure that we are able to identify fights or any illegal activities such as drug use, theft, harassments promptly and stop such activities. Our security team will attend the scene to investigate immediately if any suspicious circumstance arises or stop any potential fight inside the premises once identified. We also maintain a blacklist system which aids the entrance security officers to identify individuals with a record of unwelcoming behavior, and that such blacklisted individuals are prohibited from entering into our club so as to ensure the safety of our staff and customers.

The Group exercises caution in its daily operations to safeguard client information, protecting customer information from unauthorized access, usage and leakage through various technologies and procedures. Usage of personal data in Hong Kong is only permitted as legally prescribed under the Personal Data (Privacy) Ordinance, and only for related purposes. Personal and business data of our customers are applied for authorized business purposes only and accessible only by staff to whom the information is deemed necessary.

The Group is committed to deliver high quality of services and products to our customers. As such, we dedicate efforts to deal with complaints by our customers and establish procedures to handle complaints and implement corrective measures, with a view to preventing the reoccurrence of similar complaints. For complaints at the club premises, if any staff receives a complaint from a customer, the staff shall report to his supervisor, who would review and understand the matter with the relevant customer and offer remedial proposals to the customer. The complaint will be recorded for internal review. If the complaint cannot be resolved on site or if a complaint has been received from our online through emails, the incident will be reported to the club general manager, who will investigate the incident and file a report to the management with solutions to improve or avoid similar incidents in the future. An explanation will be sent to the relevant customer to ensure the matter would be resolved and to maintain good customer relationship. Our management will review complaints records regularly, and accordingly arrange necessary training to our staff to consistently improve the operation of the club. In 2016, we are not aware of any incident of customer complaint claiming material compensation, or any investigation by any government authorities in relation to such complaint, that could have a material adverse impact on our business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our Group's principal intellectual property rights include the trademark registered for the Cubic brand and we have taken appropriate steps to protect our intellectual property rights and registered in various jurisdictions the relevant trademark. We primarily rely on laws of trademarks and intellectual properties, and confidentiality agreements with our senior employees to protect our intellectual property. We have regularly engaged internationally acclaimed guest DJs and artists to perform in our clubs and venue where we held our event. We select music and maintain regular discussions and reviews with DJs to optimise customers' experience. The Macau Association of Composers, Authors & Publishers ("MACA") is a collective management organisation, or a musical society established under the Macau law and regulations regarding copyrights and granting licenses for performing musical recordings in public there. Arrangement has been made between the owner of our club venue and MACA that Club Cubic Macau is licensed to use and perform any of the musical works of which MACA possesses the relevant license or authority inside Club Cubic Macau for a specified term. We have maintained a list of musical works in use in Club Cubic Macau, which is distributed to our resident DJs, to ensure that all musical works in use are covered by the relevant license from MACA. We also check the list against the database of MACA every two months to ensure that the music we play are covered by its licenses and in the event that there is any update as to the licensing authority of MACA on the musical works on our list, we will revise the list where necessary and update our resident DJ. In 2016, there were no legal proceedings against the Group with respect to our use of musical work in Club Cubic Macau. For the event we held in Hong Kong, we also obtain the relevant permit and licence for public performance of music recordings from Hong Kong Recording Industry Alliance Limited, Composers and Authors Society of Hong Kong Limited and Phonographic Performance (South East Asia) Limited. In 2016, the Group was not aware of any infringement of its intellectual property rights which has a material adverse effect on our business.

The owner of our club venue has also maintained, as a whole for all businesses situate at the City of Dreams, the relevant third party liability insurance for fire or other accidents inside the club premises, while we shall maintain relevant third party insurance in relation to fitting our and renovation for the expansion. For the event held outside our club premises, we have also arranged appropriate insurance cover in respect of contractor's liability, public liability, accidental death and permanent disability. We have maintained the insurance for employees' compensation insurance for injuries or death in the course of employment.

Our suppliers mainly include beverage suppliers, suppliers of fruit for mixing of cocktail and side dishes and tobacco. The Group has established a material and supplier management system, covering the control over key procedures of, among other things, contract execution, safety management, financial settlement, monitoring and supervision. Based on the requirements and plans of the respective departments and categories of purchases, the Group usually places orders through price rationing and sentinel procurement and shortlist and choose suppliers through a screening and evaluation process. Our suppliers are selected carefully based on a set of selection criteria, which includes (i) ability to meet specification and standards; (ii) product and service quality; (iii) pricing of the products and services; (iv) quality control methods and practices, and reliable delivery method; and (v) past performance. When necessary, the Group will carry out field investigations to ensure the suppliers are well equipped to provide guaranteed quality and are able to manage safety and other environmental issues. To ensure our beverage product quality, our procurement policy is to select only those suppliers on our approved list who have passed selection procedures. Our inventory department will check the outer appearance and the quantity with reference to our procurement orders upon arrival of the beverage products. Any beverage products which do not meet our quality standards and requirements will be returned to the supplier for replacement or refund. In 2016, we had not experienced any significant problems with the quality of beverage products provided by our suppliers, any material limitations in the supply nor any shortage of our beverage products. We believe that our supply chain management and procedures can ensure the safety of our supply chain.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group endeavours to create an atmosphere where honest, loyal behaviours and ethical conduct among employees are encouraged and monitored throughout daily operations. We honour commercial credibility and oppose improper competition with a view to preventing corruption in business activities. The Group also engaged external professionals to review the policy and working manuals of the Group, which is helpful to control corruptive or unethical behaviours, in addition to internal daily supervision. Upon discovery of any misconduct, an employee may inform the supervisor or directly to the management. In respect of relevant illegal and non-compliant activities, the Group will address these seriously according to the requirements of laws, disciplines and rules, with a view to safeguarding the normal operation of its businesses. There were no complaints of corruption against the Group or its staff in 2016. To the best knowledge of the Company, the Group did not have any incident where any of our employees was involved in any bribery or kick back arrangement with suppliers in 2016.

Community

As a group which is in the process of transforming from a startup business to a scalable enterprise, and raised additional funds for development upon Listing, we undoubtedly place a strong emphasis on growth and development. Nevertheless, the Group strives to fulfill its responsibilities as a corporate citizen and makes contribution to the society. We will take into consideration the needs and interests of the communities where we expand our operations. By recruiting the staff from local communities, we believe we can relieve the employment pressure there and at the same time we could have a local team who is familiar with the local environment, thereby creating a win-win situation. We can also build a beneficial corporate-community relationship by addressing the local community concerns, such as those related to environmental issues and culture promotion. We will initially focus on area with higher local priority and we believe that the Group could devote more resources on community investment as the Group grows in its size and accelerates its development.

REPORT OF THE DIRECTORS

The Directors submit herewith their report, together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is a premium clubbing and entertainment business operator. The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 9 to the consolidated financial statements. During 2016, the Group continued to engage in the operation of clubbing business and organising music-related featured events and there are no significant changes in the nature of the Group's principal activities.

BUSINESS REVIEW

A fair review of the business, business outlook and the key financial performance indicators of the Group are provided in the "Letter to the Shareholders" and "Management Discussion and Analysis" of this annual report. In addition, more details regarding the Group's performance in relation to environmental and social-related policies, an account of the Group's relationship with its key stakeholders, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in the "Environmental, Social and Governance Report" and "Corporate Governance Report" of this annual report.

The above discussion forms part of this Report of the Directors.

SEGMENT INFORMATION

The analysis of geographical locations of the Company and its subsidiaries for the year are set out in note 9 to the consolidated financial statements. Details of the segment information of the Group for the year are set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the state of the affairs of the Company and the Group as at that date are set out in the consolidated financial statements on pages 47 to 97 of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2016.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out on page 98 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

During the year ended 31 December 2016, 450,000,000 ordinary shares were issued upon Listing by placing. Details of the movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the Consolidated Statements of Changes in Equity and note 24(b) to the consolidated financial statements, respectively.

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK\$61,990,000. This included the Company's share premium account in the amount of approximately HK\$66,235,000 which is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Choi Yiu Ying (Chairman and Chief Executive Officer)	(appointed on 19 January 2016)
Mr. Choi Siu Kit	(appointed on 30 November 2015)
Mr. Yeung Chi Shing	(appointed on 19 January 2016)

Non-executive Directors

Mr. Au Wai Pong Eric	(appointed on 2 March 2016)
Mr. Au Ion Weng	(appointed on 2 March 2016)
Ms. Poon Kam Yee Odilia	(appointed on 2 March 2016)

Independent Non-executive Directors

Mr. Lam Wai Chin Raymond	(appointed on 18 October 2016) ¹
Mr. Chan Ting Bond Michael	(appointed on 18 October 2016) ¹
Mr. Tse Kar Ho Simon	(appointed on 18 October 2016) ¹

The Company has entered into a service agreement with each of our executive Directors for an initial term of three years whereas all of the non-executive Directors have been appointed for an initial term of two years. All of the independent non-executive Directors have been appointed for an initial term of one year.

In accordance with article 108 of the Company's articles of association, Mr. Choi Yiu Ying, Mr. Choi Siu Kit and Mr. Yeung Chi Shing shall retire from office as Directors by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments of the Group are set out in note 12 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in note 25 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION FOR THE BENEFIT OF DIRECTORS

The Company has arranged appropriate insurance cover in respect of its legal action against its Directors, effective from the date of Listing and remained in force as of the date of this report.

¹ with effect from the date of Listing (11 November 2016)

REPORT OF THE DIRECTORS

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

As at 31 December 2016, the interests and short position of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director/Chief Executive	Name of Group member/associated corporation	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest immediately after the Listing
Mr. Choi Yiu Ying (Notes 2 and 3)	The Company	Interest of a controlled corporation, interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen Investment Co. Ltd ("Welmen")	Interest of a controlled corporation	3,031.11 ordinary shares of Welmen (L)	30.3111%
		Beneficial owner	706.67 ordinary shares of Welmen (L)	7.0667%
Mr. Choi Siu Kit (Notes 2 and 3)	The Company	Interest of a controlled corporation, interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Interest of a controlled corporation	3,031.11 ordinary shares of Welmen (L)	30.3111%
		Beneficial owner	706.67 ordinary shares of Welmen (L)	7.0667%
Mr. Yeung Chi Shing (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,233.44 ordinary shares of Welmen (L)	12.3444%
Mr. Au Wai Pong Eric (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,605.56 ordinary shares of Welmen (L)	16.0556%

REPORT OF THE DIRECTORS

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company or the relevant associated corporation.
- (2) On 2 March 2016, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing entered into an acting in concert confirmation whereby each of them confirmed that since 31 January 2011, they acted in concert with each other when dealing with matters concerning operation management, accounts, finance and treasury and human resources management of the Group, details of which are set out in the Prospectus. As such, pursuant to the acting in concert arrangement, each of Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (3) Welmen is owned as to 30.3111% by Yui Tak Investment Limited ("Yui Tak") and Yui Tak is wholly owned by Ocean Concept Holdings Limited ("Ocean Concept"). Ocean Concept is owned as to 88.29% by Toprich Investment (Group) Limited ("Toprich") and Toprich is wholly owned by Perfect Succeed Limited ("Perfect Succeed"), which is in turn owned as to 50% by Mr. Choi Yiu Ying and as to 50% by Mr. Choi Siu Kit. By virtue of the SFO, each of Mr. Choi Yiu Ying and Mr. Choi Siu Kit is deemed to be interested in 30.3111% of the issued share capital of Welmen held by Yui Tak and 60.75% of the issued share capital of the Company held by Welmen.

Save as disclosed above, as at 31 December 2016, none of the Directors and the Company's chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the person (other than the Directors or the Company's chief executives) or company who or which had an interest and short position in the shares and underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest immediately after the Listing
Welmen	Beneficial owner	1,093,500,000 ordinary shares (L)	60.75%
Yui Tak (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Ocean Concept (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Toprich (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%

REPORT OF THE DIRECTORS

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest immediately after the Listing
Perfect Succeed (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Mr. Au Ka Wai (Note 2)	Interest held jointly with another person	1,093,500,000 ordinary shares (L)	60.75%
Mr. Yeung Bernard Sie Hong (Note 2)	Interest held jointly with another person	1,093,500,000 ordinary shares (L)	60.75%
Kenbridge Limited ("Kenbridge")	Beneficial owner	121,500,000 ordinary shares (L)	6.75%
Mr. Poon Ching Tong Tommy (Note 5)	Interest of a controlled corporation	121,500,000 ordinary shares (L)	6.75%
Ms. Chan Ting Fai (Note 6)	Interest of spouse	1,093,500,000 ordinary shares (L)	60.75%
Ms. Lee Wan (Note 7)	Interest of spouse	1,093,500,000 ordinary shares (L)	60.75%
Ms. Mak Kai Fai (Note 8)	Interest of spouse	1,093,500,000 ordinary shares (L)	60.75%
Ms. Lau Sze Mun Charmaine (Note 9)	Interest of spouse	121,500,000 ordinary shares (L)	6.75%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) On 2 March 2016, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing entered into an acting in concert confirmation whereby each of them confirmed that since 31 January 2011, they acted in concert with each other when dealing with matters concerning operation management, accounts, finance and treasury and human resources management of the Group, details of which are set out in the Prospectus. As such, pursuant to the acting in concert arrangement, each of Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (3) Welmen is owned as to 30.3111% by Yui Tak and Yui Tak is wholly owned by Ocean Concept. By virtue of the SFO, each of Yui Tak and Ocean Concept is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (4) Ocean Concept is owned as to 88.29% by Toprich and Toprich is wholly owned by Perfect Succeed, which is in turn owned as to 50% by Mr. Choi Yiu Ying and as to 50% by Mr. Choi Siu Kit. By virtue of the SFO, each of Toprich, Perfect Succeed, Mr. Choi Yiu Ying and Mr. Choi Siu Kit is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.

REPORT OF THE DIRECTORS

- (5) Kenbridge is wholly owned by Mr. Poon Ching Tong Tommy. By virtue of the SFO, Mr. Poon Ching Tong Tommy is deemed to be interested in 6.75% of the issued share capital of the Company held by Kenbridge.
- (6) Ms. Chan Ting Fai is the spouse of Mr. Choi Siu Kit. By virtue of the SFO, Ms. Chan Ting Fai is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. John Choi is interested.
- (7) Ms. Lee Wan is the spouse of Mr. Au Wai Pong Eric. By virtue of the SFO, Ms. Lee Wan is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Au Wai Pong Eric is interested.
- (8) Ms. Mak Kai Fai is the spouse of Mr. Yeung Bernard Sie Hong. By virtue of the SFO, Ms. Mak Kai Fai is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Yeung Bernard Sie Hong is interested.
- (9) Ms. Lau Sze Mun Charmaine is the spouse of Mr. Poon Ching Tong Tommy. By virtue of the SFO, Ms. Lau Sze Mun Charmaine is deemed to be interested in 6.75% of the issued share capital of the Company in which Mr. Poon Ching Tong Tommy is interested.

Save as disclosed above, as at 31 December 2016, no other interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any associated company", at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Saved as the related party transactions disclosed in note 29 to the consolidated financial statements, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its controlling shareholders or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

INTEREST IN A COMPETING BUSINESS

As disclosed in the Prospectus, our Controlling Shareholders are interested in certain restaurant businesses in Macau (the "Retained Macau Restaurant Business") and our executive Directors, Mr. Choi Yiu Ying and Mr. Choi Sui Kit, are engaged in certain restaurant and bar business in Hong Kong (the "Retained HK Restaurant and Bar Business"). In view of the difference in industry nature, the opening business hours and the target customers of the Retained Macau Restaurant Business and the geographical difference of the Retained HK Restaurant and Bar Business, our Directors are of the view that these businesses are clearly delineated from our current clubbing business in Macau and will not compete (either directly or indirectly) or are not likely to compete with the clubbing business of our Group in Macau.

As also disclosed in the Prospectus, our independent non-executive Director, Mr. Tse Kar Ho Simon ("Mr. Tse"), is engaged in the business of musical events and performances organisation and other promotional and/or marketing events in Hong Kong, the PRC and other countries.

REPORT OF THE DIRECTORS

Below are the details of his interests in companies involved in such business during the year ended 31 December 2016:

Name of entity	Nature of interests
Best Shine Entertainment Limited	Director and interest in approximately 92.5% of its issued share capital
Best Shine (China) Entertainment Limited	Director and interest in approximately 99.9% of its issued share capital
Sky Treasure Entertainment Limited	Director and interest in approximately 83.3% of its issued share capital

The events organised by Mr. Tse are not limited to music-related events, and even as to music-related events and performances, the music genre is broad and not limited to clubbing music such as electronic music which is the focus of our Group. In addition, Mr. Tse expects that Macau will not be a material market for his event or performance organisation business in the foreseeable future. During the year ended 31 December 2016, our Group did not have any transactions with Mr. Tse or his above businesses. Hence, our Directors are of the view that the pool of potential customers and audience attending the events are different between the events organised by us and Mr. Tse and accordingly potential competition is relatively low and limited.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by China Everbright Capital Limited (“China Everbright”), the then compliance adviser of the Company, as at 31 December 2016, except for (i) China Everbright’s participation as the sole sponsor in relation to the Listing; and (ii) the compliance adviser agreement entered into between the Company and China Everbright dated 11 March 2016, neither China Everbright nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6.A.32 of the GEM Listing Rules.

As disclosed in the Company’s announcement dated 9 February 2017, the compliance adviser agreement with China Everbright was terminated with effect from 11 February 2017. Innovax Capital Limited was appointed as the new compliance adviser with effect from 12 February 2017.

DEED OF NON-COMPETITION

In order to avoid any future competition between our Group and the Controlling Shareholders, each of the Controlling Shareholders has under the Deed of Non-competition undertaken and covenanted with our Company (for itself and as trustee for its subsidiaries) that for so long as he/she/it and/or his/her/its close associates, directly or indirectly, whether individually or taken together, remain a Controlling Shareholder:

- (i) he/she/it will not, and will procure his/her/its close associates not to (other than through our Group or in respect of each Controlling Shareholder (together with his/her/its close associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, director, partner, agent, employee or otherwise and whether for profit, reward or otherwise) in any business which is or may be in competition with the business carried on by our Group from time to time (including but not limited to operating of clubbing venues and organisation of music-related events) (excluding, for the avoidance of doubt, the Retained Macau restaurant business and the Retained HK restaurant and bar business) (the “Restricted Activity”), except where our Company’s approval as mentioned in the paragraph below is obtained;

REPORT OF THE DIRECTORS

The Controlling Shareholders and their respective close associates are entitled to engage or have an interest in any Restricted Activity if after offering the New Business Opportunities (as defined below) to our Company pursuant to (ii) below, our Company has confirmed in writing (the "Approval Notice") that none of our Group members wishes to be engaged or interested in the relevant Restricted Activity and it has approved the relevant Controlling Shareholder and their respective close associates to engage or have any interest in the Restricted Activity. When New Business Opportunities are referred to the Company, the independent non-executive Directors will consider such opportunity on various aspects including viability and profitability. Any Director who is interested in the relevant Restricted Activity shall not vote on relevant resolutions approving the Approval Notice;

- (ii) if any of the Controlling Shareholders and/or his/her/its close associates decide to invest, be engaged, or participate in any Restricted Activity, whether directly or indirectly, in compliance with the Deed of Non-competition, he/she/it will and/or will procure his/her/its close associates (other than members of our Group) to disclose the terms of such investment, engagement or participation to our Company and the Directors as soon as practicable and use his/her/its best endeavors to procure that such investment, engagement or participation (the "New Business Opportunities") is offered to our Company on terms no less favorable than the terms on which such investment, engagement or participation is offered to him/her/it and/or his/her/its close associates;
- (iii) he/she/it will not, and will procure his/her/its close associates not to, directly or indirectly, solicit, interfere with or entice away from any member of our Group, any natural person, legal entity, enterprise or otherwise who, to any of our Controlling Shareholder's knowledge, as at the date of the Deed of Non-competition, is or has been or will after the date of the Deed of Non-competition be, a customer, supplier, distributor, sales or management, technical staff or an employee (of managerial grade or above) of any member of our Group; and
- (iv) he/she/it will not, and will procure his/her/its close associates not to, exploit his/her/its knowledge or information obtained from our Group to compete, directly or indirectly, with the Restricted Activity.

The Deed of Non-competition and the rights and obligations thereunder took effect immediately upon Listing and the obligations of a Controlling Shareholder under the Deed of Non-competition will remain in effect until:

- (a) the date on which the Shares cease to be listed on the Stock Exchange; or
- (b) the Controlling Shareholder and his/her/its close associates, individually and/or collectively, cease to be deemed as a Controlling Shareholder of our Company (within the meaning defined in the GEM Listing Rules from time to time); or
- (c) the Controlling Shareholder and his/her/its close associates, individually and/or collectively beneficially own or are interested in the entire issued share capital of our Company,

whichever occurs first.

Nothing in the Deed of Non-competition shall prevent the Controlling Shareholders or any of their close associates from carrying on any business whatsoever other than the Restricted Activity.

To monitor the compliance of the Deed of Non-competition, our independent non-executive Directors have also reviewed the compliance with and enforcement of the Deed of Non-competition for the year ended 31 December 2016. The Controlling Shareholders has signed and made an annual declaration on compliance with the Deed of Non-competition for the year ended 31 December 2016. The said written annual declaration has been provided to the Company.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company adopted a share option scheme on 18 October 2016 (the "Share Option Scheme") to recognize and acknowledge the contributions made by any individual who is an employee of our Group (including directors) or any entity in which our Company holds any equity interest (the "Invested Entity") and such other persons who has or will contribute to our Company as approved by our Board from time to time (the "Participants"), to attract skilled and experienced personnel, to incentivize them to remain with our Company and to motivate them to strive for the future development and expansion of our Company and its subsidiaries, by providing them with the opportunity to acquire equity interests in our Company.

The Share Option Scheme became effective on the date of the Company's listing (11 November 2016) and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 180,000,000 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million (or such other amount as permissible under the GEM Listing Rules from time to time), are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within such time to be determined by the Board and upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised. The exercise price of the share options shall be not less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered, which must be a business day (the "Offer Date"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the par value of the Shares.

As at the date of this report, no option has been granted by the Company under the Share Option Scheme.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Save for the arrangement of corporate reorganisation in preparation for the Listing, details of which are disclosed in the Prospectus, and the share option scheme of the Group, no other equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Shares have been listed on the GEM since the Listing on 11 November 2016. Save as to the Listing, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the applicable laws of the Cayman Islands, that would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company maintained a sufficient public float as required under the GEM Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on page 18 to 25 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the revenue from sales of goods or rendering of services to the five largest customers of the Group represented less than 30% of the total revenue of the Group. The purchases from the five largest suppliers of the Group accounted for 93.1% of the total purchase of the Group and the purchase from the largest supplier accounted for 74.2% of the total purchase of the Group. To the best knowledge of the Board, none of the Directors, their close associates or any shareholder holding more than 5% of the issued share capital of the Company, had any beneficial interests in the Group's five largest customers or suppliers.

CONNECTED TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2016 are disclosed in note 29 to the consolidated financial statements. These related party transactions are also connected transactions and there are no non-exempt continuing connected transactions during the year ended 31 December 2016.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Details of event after the reporting period are set out in note 32 to the consolidated financial statements.

AUDITORS

The financial statements of the Company for the year ended 31 December 2016 were audited by HLB Hodgson Impey Cheng Limited ("HLB"). A resolution will be proposed at the forthcoming annual general meeting to reappoint HLB as the auditors of the Company.

On behalf of the Board

Choi Yiu Ying

Chairman and Chief Executive Officer

Hong Kong, 28 March 2017

INDEPENDENT AUDITORS' REPORT



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**TO THE SHAREHOLDERS OF
LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED**
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Luk Hing Entertainment Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 97, which comprise the consolidated statements of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2016 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.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
------------------	--

Revenue recognition of sales of beverage and other products

Refer to Note 7 to the consolidated financial statements and the accounting policies in Note 3 to the consolidated financial statements.

We identified revenue recognised from sales of beverage and other products as a key audit matter as revenue recognised is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income and material revenue transactions may occur close to the end of the reporting period which require management's effort in verifying appropriate cut-off for goods despatched.

We selected samples of sales of beverage and other products transactions. Our procedures in relation to these transactions included:

- Obtaining an understanding of the revenue recognition process regarding sales of beverage and other products;
- Performing test of details, on a sample basis, by comparing the details and amounts of the transactions selected with the details and amounts shown on the underlying documentation, including the journal vouchers and sales invoices;
- Testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy.

We found that the amount and timing of the revenue recorded were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Shek Lui

Practising Certificate Number: P05895

Hong Kong, 28 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
	Notes		
Revenue	7	129,302	125,521
Other income and gain	8	2,659	3,298
Cost of inventories sold		(23,707)	(21,667)
Staff costs		(29,968)	(23,081)
Depreciation and amortisation		(1,976)	(2,016)
Property rentals and related expenses		(13,443)	(13,337)
Advertising and marketing expenses		(23,394)	(20,964)
Other operating expenses		(29,477)	(35,065)
Finance costs		(15)	–
Listing expenses		(16,165)	(2,469)
(Loss)/profit before taxation	11	(6,184)	10,220
Taxation	10	–	(800)
(Loss)/profit and total comprehensive (loss)/income for the year attributable to the owners of the Company		(6,184)	9,420
(Losses)/earnings per share — Basic and diluted (HK cents)	14	(0.44)	0.70

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Assets			
Non-current assets			
Plant and equipments	15	5,485	5,874
Intangible assets	16	934	–
Deposits	18	103	120
		6,522	5,994
Current assets			
Inventories	17	4,677	3,774
Account and other receivables	18	25,641	10,985
Amounts due from related parties	19	–	3,117
Cash and cash equivalents	20	73,850	20,962
		104,168	38,838
Liabilities			
Current liabilities			
Account and other payables	21	23,643	27,520
Amounts due to related parties	22	–	555
Income tax payables		8	1,938
		23,651	30,013
Net current assets		80,517	8,825
Total assets less current liabilities		87,039	14,819
Net assets		87,039	14,819

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Equity			
Share capital	23	18,000	24
Reserves		69,039	14,795
Total equity		87,039	14,819

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 47 to 97 were approved and authorised for issue by the Board of Directors on 28 March 2017 and signed on its behalf by:

Choi Yiu Ying
Director

Choi Siu Kit
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Legal reserve HK\$'000 (Note a)	Retained earnings HK\$'000	Total HK\$'000
As at 1 January 2015	24	–	12	13,195	13,231
Profit and total comprehensive income for the year	–	–	–	9,420	9,420
Dividends (Note 13)	–	–	–	(7,832)	(7,832)
As at 31 December 2015 and 1 January 2016	24	–	12	14,783	14,819
Loss and total comprehensive loss for the year	–	–	–	(6,184)	(6,184)
Effect of reorganisation	(24)	–	–	–	(24)
Capitalisation issue (Note 23(b))	13,500	(13,500)	–	–	–
Issue of shares upon placing (Note 23(c))	4,500	90,000	–	–	94,500
Expenses in connection with the issue of shares	–	(10,265)	–	–	(10,265)
Dividends (Note 13)	–	–	–	(5,807)	(5,807)
As at 31 December 2016	18,000	66,235	12	2,792	87,039

Note:

- (a) In accordance with the provisions of the Macau Commercial Code, the subsidiary of the Company in Macau are required to transfer a minimum of 25% of its profit for the year to a legal reserve before appropriation of dividends until the legal reserve equals half of the quota capital of the subsidiary. This reserve is not distributable to its shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Operating activities		
(Loss)/profit before taxation	(6,184)	10,220
Adjustments for:		
Reversal of provision for impairment on account receivable	(353)	–
Depreciation	1,938	2,016
Amortisation	38	–
Operating cash flows before movements in working capital	(4,561)	12,236
Increase in inventories	(903)	(621)
Increase in account and other receivables	(14,296)	(2,547)
Decrease/(increase) in amounts due from related parties	423	(6,780)
(Decrease)/increase in account and other payables	(3,877)	7,509
Decrease in amounts due to related parties	(555)	(218)
Cash (used in)/generated from operations	(23,769)	9,579
Income tax paid	(1,930)	–
Net cash (used in)/generated from operating activities	(25,699)	9,579
Investing activities		
Purchase of plant and equipments	(1,539)	(2,918)
Purchase of intangible assets	(972)	–
Net cash used in investing activities	(2,511)	(2,918)
Financing activities		
Proceeds from issue of shares upon placing	84,235	–
Dividends paid (Note 13)	(3,137)	–
Net cash generated from financing activity	81,098	–
Net increase in cash and cash equivalents	52,888	6,661
Cash and cash equivalents at the beginning of the year	20,962	14,301
Cash and cash equivalents at the end of the year	73,850	20,962

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Luk Hing Entertainment Group Holdings Limited (“the Company”) and its subsidiaries (collectively referred as the “Group”) is principally engaged in operation of clubbing business and organising music-related featured events.

The Company was incorporated in Cayman Islands on 30 November 2015 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 11 November 2016, the Company’s shares were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1180, Cayman Islands and the principal place of business in Hong Kong is located at Room 1505, 15/F., Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong. The Company is an investment holding company.

The functional currency of the Company is Macau Pataca (“MOP”). The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) for the convenience of the investors as the shares of the Company are listed on the GEM of the Stock Exchange. All values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2. REORGANISATION

Pursuant to the reorganisation carried out by the Group as fully explained in the section headed “Reorganisation” in the “History, reorganisation and Corporate Structure” of the prospectus of the Company dated 27 October 2016 and completed on 25 January 2016 by interspersing the Company and certain companies between Welmen Investment Co. Ltd, Yui Tak Investment Limited, Ocean Concept Holdings Limited, Toprich Investment (Group) Limited, Perfect Succeed Limited, Mr. Choi Siu Kit (“Mr. John Choi”), Mr. Choi Yiu Ying (“Mr. Simon Choi”), Mr. Au Wai Pong, Eric (“Mr. Eric Au”), Mr. Au Ka Wai (“Mr. Jerry Au”), Mr. Yeung Bernard Sie Hong (“Mr. Bernard Yeung”) and Mr. Yeung Chi Shing (“Mr. Alex Yeung”) (the “Controlling Shareholders”) and the group entities, the Company has become the holding company of the group entities now comprising the Group. The Controlling Shareholders are regarded as parties acting in concert and a group of concerted shareholders. The Group comprising the Company and its subsidiaries resulting from the reorganisation is therefore regarded as a continuing entity under common control.

Accordingly, the consolidated financial statement has been prepared on the basis as if the Company had always been the holding company of the Group by applying the principles of merger accounting. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group have been prepared as if the Reorganisation had been completed at the beginning of the reporting period, or since the respective date of incorporation of the companies now comprising the Group, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group using the existing carrying amounts of the principal business of the Group as if the current group structure had been in existence at that date taking into account the respective date of incorporation, where applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Application of new and revised HKFRSs

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on or after 1 January 2016.

HKFRSs (Amendments)	Annual Improvement to HKFRSs 2012–2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

Annual Improvements to HKFRSs 2012–2014 Cycle

The Annual Improvements to HKFRSs 2012–2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments shall be applied prospectively.

The amendments to HKFRS 7 Disclosure — Offsetting Financial Assets and Financial Liabilities provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for postemployment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in opening retained earnings of the earliest comparative period presented.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere in the interim financial report. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The application of the said amendments to HKFRSs has had no material impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Application of new and revised HKFRSs *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities:

Applying the Consolidation Exception

The amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities and HKAS 28 Investments in Associates and Joint Ventures clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 has had no material impact on the Group’s consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 regarding impairment testing of a cash-generating unit (“CGU”) to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation on its formation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The application of these amendments to HKFRS 11 has had no material impact on the Group’s consolidated financial statements.

Amendments to HKAS 1 Disclosure Initiative

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

The application of these amendments to HKAS 1 has had no material impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Application of new and revised HKFRSs *(Continued)*

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation for its plant and equipment and amortisation for its intangible assets. The directors of the Group believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the application of these amendments to HKAS 16 and HKAS 38 has had no material impact on the Group’s consolidated financial statements.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost;
- in accordance with HKFRS 9 Financial Instruments (or HKAS 39 for entities that have not yet adopted HKFRS 9); or
- using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards.

The directors of the Group do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group’s consolidated financial statements.

The application of the other new and revised HKFRSs in the current year has had no material impact on the Group’s consolidated financial performance and position for the current and prior years and on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Application of new and revised HKFRSs *(Continued)*

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014–2016 Cycle ⁵
HKFRS 2 (Amendments)	Clarification and Measurement of Share-based Payment Transaction ²
HKFRS 4 (amendments)	Insurance Contracts ²
HKFRS 9	Financial instruments ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
HKFRS 16	Leases ⁵
HKAS 7 (Amendments)	Disclosure Initiative ¹
HKFRS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

Other than explained below regarding the impact of HKFRS 16, the Group expects that the adoption of the above new or revised standards will have no significant financial impact.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees. However, the standard does not significantly change the accounting of lessors.

Application of HKFRS 16 will result in the Group’s recognition of right-of-use assets and corresponding liabilities in respect of many of the Group’s lease arrangements. These assets and liabilities are currently not required to be recognized but certain relevant information is disclosed as commitments to these financial statements. As set out in Note 27, total operating lease commitment of the Group in respect of club premises, staff quarters and warehouses as at 31 December 2016 amounted to approximately HK\$17,144,000. The directors of the Group expect certain portion of these lease commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and corresponding lease liabilities. However, it is not practicable to provide a reasonable estimate of the effect on the Group’s consolidated financial statements until the Group performs a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies

The consolidated financial statements has been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA. In addition, the consolidated financial statements includes applicable disclosure required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- the size of the Group’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Company’s voting rights and potential voting rights.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred to the Group, liabilities assumed by the Group to the sellers of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Business combinations and goodwill *(Continued)*

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRSs. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group’s previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or excess of the acquirers’ interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts.

(i) Sales of beverage and other products

Revenue from the sale of beverage and other products is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Revenue from club operations

Revenue from club operations (including entrance fees income, events rental income and cloakroom income) is recognised when the services have been provided to the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue recognition *(Continued)*

(iii) Sponsorship income

Sponsorship income is recognised when:

- the promotion events have been held; or
- the services have been rendered, and it is probable that the sponsorship income will be granted and the amount can be measured reliably.

(iv) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributable to non-controlling interests as appropriate).

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

The Group’s contributions to the defined contribution retirement benefit plans are charged to profit or loss in the year incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The Group has no further payment obligations once the contributions have been paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted by the end of each reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Plant and equipments

Plant and equipments are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipments is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipments is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated useful lives for plant and equipments are as follows:

Motor vehicles	5 years
Security surveillance-camera system	5–10 years
Furniture, fixtures and equipment	4–10 years
Tableware	3 years
Leasehold improvement	7–10 years

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Intangible assets

Licenses

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Licenses have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licenses over its estimated useful lives. Licenses are amortised over its estimated useful lives of 8.5 years. Both the period and method of amortisation are reviewed annually.

Impairment on tangible assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets represent loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial assets and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including account and other receivables, amounts due from related parties and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as account receivables which are assessed individually for impairment. Objective evidence of impairment for receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period within 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of account receivables, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liability and equity

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including account and other payables and amounts due to related parties) are subsequently measured at amortised costs, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and subsequently all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when and only when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Group if:

- (i) A person or a close member of that person’s family is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or the Group’s parent.
- (ii) An entity is related to the Group if any of the following conditions apply:
 - (a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);
 - (b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);
 - (c) both entities are joint ventures of the same third party;
 - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (f) the entity is controlled or jointly controlled by a person identified in (i);
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Related parties *(Continued)*

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- that person’s children and spouse or domestic partner;
- children of that person’s spouse or domestic partner; and
- dependants of the person or that person’s spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between the Group and a related party, regardless of whether a price is charged.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in Note 3.2, the directors of the Group are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of account and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016 and 2015, carrying values of account and other receivables were approximately HK\$25,641,000 and HK\$10,985,000 respectively (net of allowance for doubtful debt of approximately Nil and HK\$353,000 respectively).

(b) Net realisable value of inventories

The directors of the Group reviews inventories on a product-by-product basis at the end of each reporting period, and makes allowance for obsolete inventory items identified that are no longer suitable for sales. The directors of the Group estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. As at 31 December 2016 and 2015, the carrying values of inventories were approximately HK\$4,677,000 and HK\$3,774,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Financial assets		
Loans and receivables:		
— Account receivables	7,904	4,350
— Sponsorship receivables	5,150	1,966
— Events rental receivables	—	2,444
— Other receivables	532	1,364
— Amounts due from related parties	—	3,117
— Cash and cash equivalents	73,850	20,962
Financial liabilities		
Amortised cost		
— Account and other payables	23,643	27,520
— Amounts due to related parties	—	555

(b) Financial risk management objectives and policies

The directors of the Group monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

The Group's major financial instruments include account and other receivables, cash and cash equivalents, amounts due from related parties, account and other payables and amounts due to related parties. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's credit risk is primarily attributable to account and other receivables. The Group monitors the exposures to credit risk on an ongoing basis. Credit risk in respect of account and other receivables is limited as the balances are mainly due from VIP customers and financial institutions with an appropriate credit history and good reputation.

The Group does not provide any guarantees which would expose the Group to credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from account and other receivables are set out in Note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiary. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principle cash flows.

	Weighted average interest rate %	On demand or within one year HK\$'000	More than one year but less than two years HK\$'000	More than two years but less than five years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
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As at 31 December 2016

Non-derivative financial liabilities

Account and other payables	–	23,643	–	–	23,643	23,643
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As at 31 December 2015

Non-derivative financial liabilities

Account and other payables	–	27,520	–	–	27,520	27,520
Amount due to related parties	–	555	–	–	555	555
		28,075	–	–	28,075	28,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- (i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- (ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

For financial reporting purpose, fair value measurement are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the input to the fair value measurements in its entirety.

The table below gives the information about how the fair value of these financial assets and financial liabilities that are measured at fair value on a recurring basis are determined (in particular, the valuation technique(s) and inputs used). The difference level are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There were no transfer between level 1, 2 and 3 during the year.

The directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated statement of financial position approximate of their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments *(Continued)*

Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group overall strategy remains unchanged during the year.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Total liabilities	23,651	30,013
Total assets	110,690	44,832
Gearing ratio	21.4%	66.9%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OPERATING SEGMENT

Information reported internally to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group is principally engaged in operation of clubbing business and organising music-related featured events. A single management team reports to the chief operating decision makers who comprehensively manages such entire business segment. Accordingly, the Group does not have separately reportable segments.

Information about geographical areas

The Group's business and non-current assets are located in Hong Kong and Macau. The Group's revenue from external customers based on the location of the customers is detailed as below:

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Macau	116,132	125,521
Hong Kong	13,170	–
	129,302	125,521

The Group's location of non-current assets is detailed as below:

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Macau	5,815	5,994
Hong Kong	707	–
	6,522	5,994

Information about major customers

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue (2015: HK\$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE

Revenue represents the amounts received or receivable from the sales of beverage, food and tobacco products, sponsorship income and revenue from club operations and event organising (including entrance fees income, events rental income and cloakroom income).

An analysis of the Group's revenue for the year is as follows:

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Sales of beverage and other products	99,610	96,669
Sponsorship income	11,600	14,263
Entrance fees income	16,807	11,480
Others (Note)	1,285	3,109
	129,302	125,521

Note: Others mainly represent events rental income of approximately HK\$622,000 (2015: HK\$2,872,000) and cloakroom income of approximately HK\$234,000 (2015: HK\$237,000).

8. OTHER INCOME AND GAIN

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Net foreign exchange gain	748	959
Others (Note)	1,911	2,339
	2,659	3,298

Note: Others mainly included the tips income of approximately HK\$302,000 (2015: HK\$504,000) and reversal of provision for impairment on account receivable of approximately HK\$353,000 (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries as at 31 December 2016 and 2015:

Name of subsidiaries	Place and date of incorporation and type of legal entity	Place of Operations	Issued and paid up capital	Proportion of effective equity interests held by the Company				Principal Activities
				Directly 2016	Directly 2015	Indirectly 2016	Indirectly 2015	
Luk Hing Development Limited	The British Virgin Island (the "BVI"), 8 December 2015, limited liability company	Macau	USD1	100%	100%	-	-	Investment holding
Luk Hing International Limited	The BVI, 8 December 2015, limited liability company	Macau	USD1	100%	100%	-	-	Investment holding
Luk Hing Group Development Limited	The BVI, 24 November 2016, limited liability company	The People Republic of China (the "PRC")	USD1	-	-	100%	-	Investment holding
Luk Hing Investment Limited	Macau, 20 May 2010, limited liability company	Macau	MOP 25,000	-	-	100%	-	Operation of clubbing business
Luk Hing Investment (Hong Kong) Limited	Hong Kong, 12 January 2016, limited liability company	Hong Kong	HK\$1	-	-	100%	-	Organising music-related events
Luk Hing Group Development (China) Limited	Hong Kong, 9 December 2016, limited liability company	The PRC	HK\$100	-	-	100%	-	Operation of clubbing business

10. TAXATION

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Income tax expense		
— Macau Complementary Tax	-	800

Macau Complementary Tax is calculated at 12% of the assessable profit for the years ended 31 December 2016 and 2015.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit subject to Hong Kong Profits Tax during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. TAXATION (Continued)

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 during the years ended 31 December 2016 and 2015.

The income tax expense can be reconciled to the (loss)/profit before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
(Loss)/profit before taxation	(6,184)	10,220
Tax at the applicable income tax rate	(995)	1,225
Tax effect of temporary difference not recognised	(35)	(364)
Tax effect of expenses not deductible for tax purpose	31	1
Tax losses not recognised	1,051	8
Tax effect of non-taxable income	(52)	–
Exemption for tax liabilities in Macau Complementary Tax (Note)	–	(70)
Taxation for the year	–	800

Note: Under the Macau Complementary Tax, for the years of assessment 2016 and 2015, the taxable profits up to MOP600,000 was exempted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
(Loss)/profit before taxation has been arrived at after charging:		
Staff costs:		
Director's emoluments (included retirement scheme contributions) (Note 12)	1,696	–
Salaries and other benefits	27,873	22,882
Retirement benefits scheme contributions	399	199
	29,968	23,081
Auditors' remuneration		
— HLB Hodgson Impey Cheng Limited (Note (i))	700	–
— Other auditor	97	95
	797	95
Cost of inventories sold		
Lease payments under operating leases	23,707	21,667
— Minimum lease payments	7,294	5,466
— Profit sharing for lease payment (Note (ii))	6,149	7,871
	13,443	13,337
Depreciation of plant and equipments		
Amortisation of intangible assets	1,938	2,016
	38	–
	1,976	2,016

Notes:

- (i) Excluding services for the listing of the Group.
- (ii) Profit sharing for lease payment was the contingent rental depending on the net profit of the club operation, net of royalty and provision for fixed assets maintenance, pursuant to the term and conditions as set out in the respective agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The aggregate amounts of emoluments paid by the companies now comprising the Group to the directors of the Company during the reporting period are as follows:

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Directors' fees	78	–
Salaries and other benefits	1,567	–
Retirement schemes contributions	51	–
	1,696	–

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and chief executive of the Group during the years ended 31 December 2016 and 2015 are as follows:

For the year ended 31 December 2016

	Fees HK\$'000	Salaries, allowances, bonuses and benefit in kind HK\$'000	Retirement scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors				
Mr. Choi Yiu Ying (Note 1)	–	677	18	695
Mr. Choi Siu Kit	–	588	18	606
Mr. Yeung Chi Shing	–	302	15	317
Non-executive directors				
Mr. Au Wai Pong, Eric (Note 2)	–	–	–	–
Mr. Au Ion Weng (Note 2)	–	–	–	–
Ms. Poon Kam Yee, Odilia (Note 2)	–	–	–	–
Independent non-executive directors				
Mr. Lam Wai Chin, Raymond (Note 3)	25	–	–	25
Mr. Chan Ting Bond, Michael (Note 3)	25	–	–	25
Mr. Tse Kar Ho, Simon (Note 3)	28	–	–	28
	78	1,567	51	1,696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2015

	Fees HK\$'000	Salaries, allowances, bonuses and benefit in kind HK\$'000	Retirement scheme contribution HK\$'000	Total remuneration HK\$'000
Executive directors				
Mr. Choi Yiu Ying (Note 1)	–	–	–	–
Mr. Choi Siu Kit	–	–	–	–
Mr. Yeung Chi Shing	–	–	–	–
	–	–	–	–

Notes:

- (1) Mr. Choi Yiu Ying is also the Chief Executive of the Group and his emoluments disclosed above include those for the services rendered by him as the Chief Executive.
- (2) Mr. Au Wai Pong, Eric, Mr. Au Ion Weng and Ms. Poon Kam Yee, Odilia are appointed to be the non-executive directors of the Group on 2 March 2016.
- (3) Mr. Lam Wai Chin, Raymond, Mr. Chan Ting Bond, Michael and Mr. Tse Kar Ho, Simon are appointed to be the independent non-executive directors of the Group on 18 October 2016 and effective on 11 November 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals during the year included one directors (2015: no directors) whose emoluments are disclosed in above. The aggregate of the emoluments in respect of the other four individuals (2015: five individuals) with the highest emoluments are as follows:

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Salaries, allowances and benefit in kind	2,902	2,856
Retirement scheme contributions	25	9
	2,927	2,865

The emoluments of the other four individuals (2015: five individuals) with the highest emoluments are within the following bands:

	Year ended 31 December 2016	Year ended 31 December 2015
Nil to HK\$1,000,000	4	5

Senior management of the Group

The number of senior management of the Group of these highest paid employees fell within the following band is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Nil to HK\$1,000,000	1	1

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to any of the directors of the Group or the chief executive of the Group or the five highest paid employees or senior managements as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees and senior management waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. DIVIDENDS

No dividend has been paid or proposed by the Company since its date of incorporation. The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

Prior to the listing of the Company and Group reorganisation disclosed in the Prospectus, Luk Hing Investment Limited had declared dividends in aggregate amounts of HK\$7,832,000 and HK\$5,807,000 to its former shareholder during the years ended 31 December 2015 and 2016 respectively. The amounts were settled with amounts due from related parties and cash.

14. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
(Loss)/profit for the year attributable to the owners of the Company	(6,184)	9,420
	'000	'000
Number of ordinary shares for the purpose of calculating basic (losses)/earnings per share	1,412,877	1,350,000

Note:

The calculation of basic (losses)/earnings per share for the years ended 31 December 2016 and 2015 is based on the (loss)/profit and total comprehensive (loss)/income for the year attributable to the owners of the Company and the weighted average number of shares for the relevant period.

For the year ended 31 December 2016, the weighted average number of ordinary shares for the purpose of calculating basic losses per share have been adjusted for the effect of placing completed on 11 November 2016.

For the year ended 31 December 2015, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share is calculated based on the assumption that 1,350,000,000 ordinary shares had been in issue, comprising 10,000 ordinary shares in issue and 1,349,990,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the sub-section headed "Share Capital" set out in the Prospectus as if the shares had been outstanding throughout the period.

No diluted (losses)/earnings per share for the years ended 31 December 2016 and 2015 was presented as there were no potential dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PLANT AND EQUIPMENTS

	Motor vehicles HK\$'000	Security surveillance- camera system HK\$'000	Furniture, fixtures and equipment HK\$'000	Tableware HK\$'000	Leasehold improvement HK\$'000	Total HK\$'000
Cost						
As at 1 January 2015	413	526	7,063	762	408	9,172
Additions	-	-	3,860	-	-	3,860
As at 31 December 2015 and 1 January 2016	413	526	10,923	762	408	13,032
Additions	574	-	975	-	-	1,549
As at 31 December 2016	987	526	11,898	762	408	14,581
Accumulated depreciation						
As at 1 January 2015	96	270	3,734	762	280	5,142
Charge for the year	83	87	1,768	-	78	2,016
As at 31 December 2015 and 1 January 2016	179	357	5,502	762	358	7,158
Charge for the year	93	70	1,745	-	30	1,938
As at 31 December 2016	272	427	7,247	762	388	9,096
Net book values						
As at 31 December 2016	715	99	4,651	-	20	5,485
As at 31 December 2015	234	169	5,421	-	50	5,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

	Licenses HK\$'000
Cost	
As at 1 January 2015	–
Additions	–
<hr/>	
As at 31 December 2015 and 1 January 2016	–
Additions	972
<hr/>	
As at 31 December 2016	972
<hr/>	
Accumulated amortisation	
As at 1 January 2015	–
Charge for the year	–
<hr/>	
As at 31 December 2015 and 1 January 2016	–
Charge for the year	38
<hr/>	
As at 31 December 2016	38
<hr/>	
Net book values	
As at 31 December 2016	934
<hr/>	
As at 31 December 2015	–
<hr/>	

The licenses include the dance hall license and karaoke license of the club premises. The dance hall license permits the club to operate as a dance hall. The karaoke license permits the club to operate karaoke activity. The dance hall license and karaoke license are typically granted for a period of one year. The directors of the Company are not aware of any expected impediment with respect to the renewal of the licenses and consider that the possibility of failing in license renewal is remote. Therefore, the directors of the Company estimated the useful lives of the intangible assets are same expiry date of the operating agreement of the club premises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVENTORIES

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Beverage	4,582	3,672
Tobacco	95	102
	4,677	3,774

18. ACCOUNT AND OTHER RECEIVABLES

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Account receivables	7,904	4,703
Less: allowance for doubtful debts	—	(353)
	7,904	4,350
Sponsorship receivables	5,150	1,966
Events rental receivables	—	2,444
Prepayments	6,099	213
Deposits	6,059	768
Other receivables	532	1,364
	25,744	11,105
Portion classified as non-current		
— Deposit	(103)	(120)
	25,641	10,985

For account receivables and events rental receivables, the Group allows credit period of within 60 days which are agreed with its debtors. For sponsorship receivables, the Group allows credit period of within 180 days which are agreed with each of its sponsors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. ACCOUNT AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of account receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
0 to 30 days	4,569	3,339
31 to 60 days	897	492
61 to 90 days	1,130	471
91 to 120 days	676	–
Over 120 days	632	48
	7,904	4,350

The Group's account receivables mainly represented VIP customer receivables and the credit card sales receivables from financial institutions.

Past due but not impaired

Before accepting any new VIP customer, the Group assesses the potential VIP customer's credit quality and defines credit limits by each VIP customer. The majority of the Group's account receivables that are past due but not impaired have good credit quality with reference to respective settlement history.

As at 31 December 2016 and 2015, account receivables of approximately HK\$2,438,000 and HK\$519,000 were past due but not impaired, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables presented based on due date is as follows:

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Overdue by:		
0 to 30 days	1,130	471
Over 30 days	1,308	48
	2,438	519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. ACCOUNT AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

	HK\$'000
As at 1 January 2015	970
Amounts written off as uncollectible	(617)
As at 31 December 2015 and 1 January 2016	353
Reversal of provision for impairment on accounts receivable	(353)
As at 31 December 2016	–

In determining the recoverability of account receivables, the Group considers any change in the credit quality of the account receivables from the date credit was initially granted up to the end of each reporting period.

The reversal of provision for impairment on account receivables of approximately HK\$353,000 recognised due to the recovery of debts during the year ended 31 December 2016.

As at 31 December 2016 and 2015, the Group's prepayments mainly represents prepayments for performance fee of featured events of approximately HK\$3,981,000 and nil, respectively and prepayments for legal and professional fees of HK\$1,751,000 and nil, respectively. As at 31 December 2016 and 2015, the Group's deposits mainly represents deposits for acquisition of plant and equipments and decoration of approximately HK\$4,655,000 and HK\$499,000, respectively, rental deposits of approximately HK\$280,000 and HK\$269,000, respectively, and deposits for holding featured events of approximately HK\$888,000 and nil, respectively. As at 31 December 2016 and 2015, the amounts of the Group's other receivables mainly represents refund for deposit for featured events of approximately HK\$231,000 and HK\$739,000, respectively.

19. AMOUNTS DUE FROM RELATED PARTIES

Name of related parties	Maximum balance outstanding during		As at 31 December 2016	As at 31 December 2015
	Year ended 31 December 2016	Year ended 31 December 2015		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Star Century Investments Limited (Note 1)	3,045	9,378	–	3,045
Xin Limited (Note 2)	72	1,191	–	72
			–	3,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. AMOUNTS DUE FROM RELATED PARTIES (Continued)

Notes:

1. Star Century Investments Limited is the former shareholder of Luk Hing Investment Limited. The executive directors of the Group are the ultimate shareholders of Star Century Investments Limited.
2. Xin Limited is the subsidiary of Star Century Investments Limited. The executive director of the Group, Mr. Choi Siu Kit, is the director of Xin Limited.

The amounts due from related parties were unsecured, interest free and recoverable on demand.

20. CASH AND CASH EQUIVALENTS

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
MOP	9,406	10,596
HK\$	64,426	10,331
RMB	18	35
	73,850	20,962

Cash and cash equivalents carry interest at 0.01% market rates per annum for the year ended 31 December 2016 (2015: 0.01% to 0.30%).

21. ACCOUNT AND OTHER PAYABLES

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Account payables	2,232	2,520
Rental payables	3,582	7,768
Other payables	13,022	11,449
Accruals	4,807	5,783
	23,643	27,520

The credit period on account payables are generally within 45 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. ACCOUNT AND OTHER PAYABLES (Continued)

Included in account payables are creditors with the following ageing analysis, based on the invoice date, as of the end of the reporting period:

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
0 to 30 days	2,148	2,518
31 to 60 days	76	2
61 to 90 days	8	–
	2,232	2,520

As at 31 December 2016 and 2015, other payables mainly represented the amount due to Melco Crown (COD) Retail Services Limited of approximately HK\$8,680,000 and HK\$8,939,000 respectively. The amount is unsecured, interest free and repayable on demand.

22. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties were unsecured, interest free and repayable on demand.

23. SHARE CAPITAL

The share capital of the Group as at 31 December 2015 represented the aggregate of share capital of Luk Hing Investment Limited and the Company in issue as at that date. The share capital of the Group as at 31 December 2016 represented the share capital of the Company. Movements of the share capital of the Company are as follows:

	2016		2015	
	Number of Shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
Authorised				
Ordinary share of HK\$0.01 each				
At 31 December	10,000,000	100,000	10,000	100
Issued and fully paid				
At 1 January	–	–	–	–
Issue of shares upon reorganisation (note (a))	10	–	–	–
Capitalisation issue (note (b))	1,349,990	13,500	–	–
Issue of shares upon placing (note (c))	450,000	4,500	–	–
At 31 December	1,800,000	18,000	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SHARE CAPITAL *(Continued)*

Notes:

- (a) On 19 January 2016, Mr. Choi Siu Kit transferred 1 share to Welmen Investment Co. Ltd. ("Welmen") at par. And on the same date, the Company issued 8,999 shares and 1,000 shares to Welmen and Kambridge Limited respectively for the Reorganisation as set out in the section headed "Reorganisation" in the "History, Reorganisation and Corporate Structure" to the Prospectus.
- (b) Pursuant to a shareholder resolution passed on 18 October 2016, conditional on the share premium account of the Company being credited by HK\$13,499,900 as a result of the placing as mentioned and defined in (c) below, an aggregate of 1,349,990,000 Shares, by way of capitalisation of the sum of HK\$13,499,900 standing to the credit of the share premium account of the Company, would be issued, allotted and credited as fully paid at par to the Shareholders as appearing on the register of members of the Company as of 10 November 2016. Upon the Capitalisation, the issued share capital of the Company would become HK\$18,000,000 divided into 1,800,000,000 shares of HK\$0.01 each.
- (c) On 11 November 2016, 450,000,000 ordinary shares of HK\$0.01 each were issued by way of placing at a price of HK\$0.21 per share (the "Placing Price") for cash consideration of HK\$94,500,000. The excess of the Placing Price over the par value of the shares issued was credited to the share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

(a) Statement of Financial Position

	Note	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Assets			
Non-current asset			
Investments in subsidiaries	9	–	–
Current assets			
Account and other receivables		1,871	–
Amounts due from subsidiaries		25,035	–
Cash and cash equivalents		53,663	–
		80,569	–
Liabilities			
Current liabilities			
Account and other payables		579	–
Amounts due to subsidiaries		–	34
		579	34
Net current assets/(liabilities)		79,990	(34)
Total assets less current liabilities		79,990	(34)
Net assets/(liabilities)		79,990	(34)
Equity			
Share capital	23	18,000	–
Reserve	24(b)	61,990	(34)
Total equity		79,990	(34)

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2017 and signed on its behalf by:

Choi Yiu Ying
Director

Choi Siu Kit
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

(b) Reserve

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 30 November 2015 (date of incorporation)	–	–	–
Loss and total comprehensive loss for the period	–	(34)	(34)
As at 31 December 2015 and 1 January 2016	–	(34)	(34)
Loss and total comprehensive loss for the year	–	(4,211)	(4,211)
Capitalisation issue (note 23(b))	(13,500)	–	(13,500)
Issue of shares upon placing (note 23(c))	90,000	–	90,000
Expenses in connection with the issue of shares	(10,265)	–	(10,265)
As at 31 December 2016	66,235	(4,245)	61,990

At 31 December 2016, the Company had reserves of approximately HK\$61,990,000 available for distribution in accordance with the Company law of Cayman Islands (2015: HK\$nil).

25. EMPLOYEE BENEFIT PLANS

The Group provides defined contribution plans for its employees in Macau and Hong Kong.

Employees

Macau

Qualified employees of the Group in Macau are members of Social Security Fund Scheme (the “SSF Scheme”) operated and managed by the Macau Government and the Group is required to pay a monthly fixed contribution to the SSF Scheme to fund the benefits. The obligation of the Group with respect to the SSF Scheme operated by the Macau Government is to make the required contributions under the scheme. The SSF Scheme was established under trust with the fund assets being held separately from those of the Group by independent trustees in Macau.

Hong Kong

Qualified employees of the Group in Hong Kong are members of Mandatory Provident Fund Schemes (the “MPF Schemes”) administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the MPF scheme vest immediately. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. SHARE OPTION SCHEME

A summary of the share option schemes of the Company are set out in the section headed “Share Option Schemes” in the Report of the Directors of the annual report.

The Company adopted a share option scheme on 18 October 2016 (the “Share Option Scheme”). The Share Option Scheme became effective on the date of the Company’s listing (11 November 2016) and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 180,000,000 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million (or such other amount as permissible under the GEM Listing Rules from time to time), are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within such time to be determined by the Board and upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised. The exercise price of the share options shall be not less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the date on which the option is offered, which must be a business day (the “Offer Date”); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the par value of the Shares.

At the end of the reporting period, no option has been granted by the Company under the Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. OPERATING LEASE ARRANGEMENTS

The Group leases the club premises, staff quarters and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to five years. At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Within one year	5,807	4,294
In the second to fifth year inclusive	11,337	871
	17,144	5,165

In addition, the operating lease rentals for club premises are included a fixed rental and a contingent rental depending on the net profit of the club operation pursuant to the terms and conditions as set out in the respective agreements. As the future net profit for the club operation could not be reliably determined, the relevant contingent rental has not been included in above table.

28. CAPITAL COMMITMENTS

Capital commitments outstanding at the end of the reporting period contracted but not provided for in the financial statements were as follows:

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Plant and equipments	2,451	–

The Group served a renewal notice to the owner of the club premises to extend the right to operate the club to March 2025. Pursuant to the relevant terms, the Group shall open and fund all fit-out and related works in respect of the first phase expansion of not less than MOP 15.0 million (equivalent to approximately HK\$14.6 million) by 1 October 2017 (or such other date agreed between the parties).

29. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in these consolidated financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

- (a) Compensation paid to key management personnel of the Group represented are disclosed in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (b) During the years ended 31 December 2016 and 2015, the Group had the following transactions with related parties:

Related parties	Nature of transactions	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Star Century Investments Limited (Note 1)	Service income	–	22
Xin Limited (Note 2)	Service income	–	973
	Service expenses	–	909
Ocean Concept Holdings Limited (Note 3)	Advertising expenses	–	88
	Rental expenses	–	120
	Consulting fee paid	–	7,366
	Management fee paid	–	600
Zone One (CS) Limited (Note 4)	Rental expenses	1,000	–
Bo Xing Group Company Limited (Note 5)	Service expenses	3	–

Notes:

- Star Century Investments Limited is the former shareholder of Luk Hing Investment Limited. The executive directors of the Group are the ultimate shareholders of Star Century Investments Limited.
- Xin Limited is the subsidiary of Star Century Investments Limited. The executive director of the Group, Mr. Choi Siu Kit, is also the director of Xin Limited.
- Ocean Concept Holdings Limited is a Controlling Shareholder of the Company. The directors of the Group, Mr. Choi Yiu Ying and Mr. Choi Siu Kit, are also the directors of Ocean Concept Holdings Limited.
- Zone One (CS) Limited is held by Mr. Choi Kuen Kwan and Ms. Lo Mong Yee, who are the father and the mother of Mr. Choi Yiu Ying and Mr. Choi Siu Kit, who are the executive directors of the Group.
- The major shareholder of Bo Xing Group Company Limited is Star Century Investments Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. NON-CASH TRANSACTION

During the years ended 31 December 2016 and 2015, dividend of approximately HK\$2,670,000 and HK\$7,832,000 respectively were settled with the amounts due from related parties.

31. CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

32. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group and Yuri Holdings Co. Ltd., entered into a sub-franchising agreement with a sub-franchisee in the PRC which is an independent third party and an operator of night clubs and bars in Hunan Province of the PRC, regarding the opening and operation of a monkey museum night club in Changsha City. For further details, please refer to the Company's announcement dated 24 January 2017.

33. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group pursuant to Rule 18.33 of the GEM Listing Rules, as extracted from the published audited consolidated financial statements or published prospectus of the Company, is set out below:

	Year ended 31 December		
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	129,302	125,521	120,349
Listing expenses	(16,165)	(2,469)	–
(Loss)/profit before taxation	(6,184)	10,220	9,826
Total comprehensive (loss)/profit for the year	(6,184)	9,420	8,792

	As at 31 December		
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total assets	110,690	44,832	35,153
Total liabilities	23,651	30,013	21,922
Net current assets	80,517	8,825	9,119
Net assets	87,039	14,819	13,231

DEFINITIONS AND GLOSSARY

“Board”	the board of Directors
“City of Dreams”	an integrated resort located on two adjacent pieces of land in Cotai, Macau, which was opened in June 2009 and owned by Melco Crown (COD) Developments Limited
“Club Cubic Macau”	a clubbing venue operated by the Group under the name of Cubic which was opened in April 2011 and located at 2nd and 3rd floor, The Boulevard, City of Dreams, Cotai, Macau
“Club Cubic Zhuhai”	a proposed clubbing venue in Zhuhai to be operated by a joint venture company in which the Group is expected to hold less than 20% interest, details of which are disclosed in the Company’s announcement dated 12 December 2016 and 10 February 2017
“COD”	Melco Crown (COD) Retail Services Limited, an affiliate of Melco Crown (COD) Developments Limited
“Company”	Luk Hing Entertainment Group Holdings Limited (stock code: 8052), a company incorporated in the Cayman Islands with limited liability, and the issued Shares of which are listed on the GEM
“Controlling Shareholders”	has the meaning ascribed thereto in the GEM Listing Rules and in the case of our Company, means Welmen Investment Co. Ltd, Yui Tak Investment Limited, Ocean Concept Holdings Limited, Toprich Investment (Group) Limited, Perfect Succeed Limited, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong, Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing. Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing are regarded as parties acting in concert and a group of concerted shareholders by virtue of an acting in concert confirmation dated 2 March 2016
“Directors”	the directors of the Company
“GEM”	the Growth Enterprise Market of Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and/or any of its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the GEM Listing Rules

DEFINITIONS AND GLOSSARY

“Listing”	the listing of the Shares on GEM on 11 November 2016
“Macau”	The Macau Special Administrative Region of the PRC
“Monkey Museum Changsha”	a night club under the name of monkey museum operated by an independent third party sub-franchisee identified and recruited by the Group pursuant to an exclusive master franchising agreement and a sub-franchising agreement, details of which are disclosed in the Company’s announcements dated 28 December 2016 and 24 January 2017
“MOP”	Macau Pataca(s), the lawful currency of Macau
“Old Cubic”	a clubbing venue under the name of Cubic which was opened in December 2008 and closed in August 2010 and owned indirectly by Ocean Concept Holdings Limited, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong, Mr. Poon Ching Tong Tommy and its then other shareholders and located at Room 202, 2/F., AIA Tower, No. 251A–301 Avenida Commercial De Macau, Macau
“Operating Agreement”	an operating agreement dated 28 April 2010 entered into between COD (as the owner) and Star Century Investments Limited (as the operator), novated by a novation agreement dated 14 January 2011 entered into between COD (as the owner), Star Century Investments Limited (as the old operator) and Luk Hing Investment Limited (as the new operator), and supplemented by a supplemental agreement dated 28 November 2012 and further supplemented by a second supplemental agreement dated 5 August 2016, concerning the operation of Club Cubic Macau
“PRC”	the People’s Republic of China (for the purpose of this annual report, exclude Hong Kong, Macau and Taiwan)
“Prospectus”	the prospectus of the Company dated 27 October 2016
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the ordinary shares of HK\$0.01 each in the issued share capital of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited