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LUK HING ENTERTAINMENT GROUP

THIRD QUARTERLY REPORT 2018

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 (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 GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

THIRD QUARTERLY RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three-month and nine-month periods ended 30 September 2018, together with the unaudited comparative figures for the respective corresponding period in 2017, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	2	45,222	47,787	145,193	98,845
Other income and gain		497	1,704	3,737	2,593
Cost of inventories sold		(10,477)	(7,145)	(30,542)	(17,590)
Staff costs		(13,362)	(10,401)	(40,625)	(27,535)
Property rentals and related expenses		(5,515)	(6,612)	(16,244)	(10,130)
Advertising and marketing expenses		(4,122)	(12,219)	(20,445)	(19,593)
Other operating expenses		(8,735)	(16,980)	(34,415)	(30,964)
Depreciation and amortisation		(1,714)	(683)	(4,953)	(1,750)
Profit/(Loss) before taxation		1,794	(4,549)	1,706	(6,124)
Taxation	3	(314)	-	(734)	-
Profit/(Loss) for the period		1,480	(4,549)	972	(6,124)
Other comprehensive income/(loss):					
Exchange difference on translating of financial statements of overseas subsidiaries		(346)	-	(253)	-
Total comprehensive income/(loss) for the period		1,134	(4,549)	719	(6,124)
Profit/(Loss) for the period attributable to:					
Owners of the Company		165	(3,115)	(1,672)	(4,690)
Non-controlling interests		1,315	(1,434)	2,644	(1,434)
		1,480	(4,549)	972	(6,124)
Total comprehensive income/(loss) for the period attributable to:					
Owners of the Company		(181)	(3,115)	(1,925)	(4,690)
Non-controlling interests		1,315	(1,434)	2,644	(1,434)
		1,134	(4,549)	719	(6,124)
		HK Cents	HK Cents	HK Cents	HK Cents
Earnings/(Loss) per share attributable to owners of the Company					
Basic and diluted	4	0.01	(0.17)	(0.09)	(0.26)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2018

	Attributable to owners of the Company							Total HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Legal reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Retained earnings/ losses HK\$'000 (Unaudited)	Sub-total HK\$'000 (Unaudited)	Attributable to non-controlling interests HK\$'000 (Unaudited)	
At 1 January 2017	18,000	66,235	12	-	2,792	87,039	-	87,039
Loss and total comprehensive loss for the period	-	-	-	-	(4,690)	(4,690)	(1,434)	(6,124)
Capital contribution from non-controlling interests	-	-	-	-	-	-	4,002	4,002
At 30 September 2017	18,000	66,235	12	-	(1,898)	82,349	2,568	84,917
At 1 January 2018	18,000	66,235	12	82	(6,483)	77,846	(235)	77,611
Profit/(loss) for the period	-	-	-	-	(1,672)	(1,672)	2,644	972
Other comprehensive income/(loss) for the period	-	-	-	(253)	-	(253)	-	(253)
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-
At 30 September 2018	18,000	66,235	12	(171)	(8,155)	75,921	2,409	78,330

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated quarterly financial information of the Group has not been audited. The unaudited condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2018 have been prepared under historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated quarterly financial information should be read in conjunction with the audited annual financial statements included in the annual report of the Company dated 26 March 2018 (the “2017 Annual Report”). The accounting policies adopted are consistent with those applied in the Group’s audited annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, including the new and revised HKFRSs which are effective for the financial year beginning from 1 January 2018.

A number of new or amended standards became applicable for the current reporting period. The Group has changed its accounting policies and made retrospective adjustment as a result of adopting IFRS 9 “Financial Instruments”. The impact of the adoption of the standard and the new accounting policies are set out below.

Adoption of IFRS 9 “Financial Instruments”

(i) Classification and measurement of financial instruments

On 1 January 2018, the Group’s management has assessed and classified its financial instruments into the appropriate IFRS 9 measurement categories including those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss) and those to be measured at amortised cost. The classification depends on the entity’s business model for managing the financial assets and the contractual terms of cash flows.

The Group’s financial assets include cash and cash equivalents, account receivables, sponsorship receivables and other receivables, unlisted equity investment and Preferred Share investment.

1. BASIS OF PREPARATION *(Continued)*

Adoption of IFRS 9 “Financial Instruments” *(Continued)*

(i) **Classification and measurement of financial instruments** *(Continued)*

Account receivables, sponsorship receivables and other receivables were classified as financial assets at amortised costs. Unlisted equity investment and Preferred Share investment were classified as available-for-sale stated at cost under previous standard IAS 39. With the adoption of IFRS 9, these investments do not meet the IFRS 9 criteria for classification at amortised cost as their cash flows do not represent solely payments of principal and interests. Thus, these investments were reclassified to financial assets at fair value through other comprehensive income since the investments are held as long-term Investments and the Group does not intend to dispose them in the near future.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or through other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(ii) **Fair value of financial instruments**

Fair value hierarchy

Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

Level 2

The fair value of financial instruments which are not traded in active market and is determined using valuation techniques that use observable market data and rely as little as possible on entity specific estimates.

Level 3

If one or more of the significant inputs used in the valuation is not based on observable market data, the instrument is included in level 3.

(iii) **Impairment of financial assets**

The Group applies the IFRS 9 simplified approach to measure expected credit losses using either 12-month expected credit losses or lifetime expected credit loss based on historical settlement records, past experience and available forward- looking information.

Except adoption of IFRS 9 “Financial Instruments”, the other standards did not have any impact on the Group’s accounting policies.

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

2. REVENUE

Revenue represents amounts received or receivable from the sales of food, beverage and other products, sponsorship income, revenue from club and restaurant operations and event organizing (including entrance fees income, event rental income and cloakroom income) and loan interest income from money lending business. An analysis of revenue is as follows:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Sales of food and other products	17,001	1,247	44,228	3,180
Sales of beverage	25,207	28,790	81,251	70,709
Sponsorship income	1,602	3,017	6,804	5,181
Entrance fees income	1,200	14,250	12,033	18,503
Loan interest income	50	–	150	–
Others (note)	162	483	727	1,272
	45,222	47,787	145,193	98,845

note: others mainly represent events rental income, cloakroom income, royalty and franchising income.

3. INCOME TAX EXPENSES

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Current tax	314	–	734	–

- (i) Macau Complementary Tax is calculated at 12% of the assessable profit for the nine-month period ended 30 September 2018 after deducting the exempted amount of MOP600,000. Under the Macau Complementary Tax, for the years of assessment 2018 and 2017, the taxable profits up to MOP600,000 were exempted. The Macau subsidiary had no estimated assessable profit and no provision for Macau Complementary Tax was made for the three-month and nine-month periods ended 30 September 2017.

3. INCOME TAX EXPENSES *(Continued)*

(i) (Continued)

No provision for Hong Kong profits tax is made since the Hong Kong subsidiary has no estimated assessable profit for the three-month and nine-month periods ended 30 September 2018 and 2017, respectively.

(ii) In May 2017, the Macau Financial Services Bureau (the "Macau FSB"), after the review by its Complementary Income Tax Review Committee, demanded the Macau subsidiary of the Group to pay an additional income tax of approximately HK\$0.9 million for the year of assessment ended 31 December 2013 as the tax authority revised its original assessment and disallowed the deductibility of the then contingent rentals paid to the owner of the club premises.

In June 2017, the Macau FSB also issued revised assessment and demanded for an additional income tax of approximately HK\$0.8 million for the year of assessment ended 31 December 2014 on the same ground.

The Group objected the revised additional assessments due to (a) the contingent rentals paid to the owner of the club premises were operating costs of the Macau subsidiary for the uses of the premises but not a distribution to its shareholders; and (b) the owner of the club premises had reported the income in its own tax filings to the Macau FSB. In addition to the appeal filed to the Macau FSB in June 2017, the Macau subsidiary also filed appeal to the Administrative Court.

In January and April 2018, the Macau subsidiary received replies for the appeal filed to the Macau FSB. The Macau FSB ruled out our objection and disallowed the deductibility of the contingent rentals paid to the owner of the club premises for the year of assessment ended 31 December 2013 and 2014 respectively. The Group is waiting for the final decision of the Administrative Court.

At the same time, the owner of the club premises received a notice from the Macau FSB that its corresponding income was revised to be nontaxable. The owner has agreed to bear the relevant additional tax for the years of assessment ended 31 December 2013 and 2014 if the Group fails in its appeal. In case the Macau FSB also disallows the deductibility of the contingent rentals for the years of assessment ended 31 December 2015, 2016 and 2017 and the Group fails in its appeal, the owner will also bear the relevant additional tax. The additional tax is estimated to be approximately HK\$3.9 million in aggregate for the years of assessment ended 31 December 2013 and 2014 to 2017.

Accordingly, no provisions have been made in respect of the above tax dispute with the Macau FSB.

4. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Profit/(Loss) for the period attributable to the owners of the Company	165	(3,115)	(1,672)	(4,690)
	'000	'000	'000	'000
Number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	1,800,000	1,800,000	1,800,000	1,800,000

The calculation of basic earnings/(loss) per share for the three-month and nine-month periods ended 30 September 2018 and 2017 is based on the profit/(loss) for the period attributable to the owners of the Company and the weighted average number of shares for the relevant period.

No adjustment has been made to the basic earnings/(loss) per share presented for the three-month and nine-month periods ended 30 September 2018 and 2017 in respect of a dilution as the Group did not have any potentially dilutive ordinary shares in issue during those periods.

5. DIVIDEND

The Board does not recommend the payment of an interim dividend by the Company for the nine-month period ended 30 September 2018.

6. EVENTS AFTER THE REPORTING PERIOD

On 2 October 2018, a total of 30,142,308 share options were granted to certain employees and consultants of the Company (the "Grantees") to subscribe for 30,142,308 shares at an exercise price of HK\$0.061 per share (the "Share Options"). None of the Grantees is a director, chief executive or substantial shareholder of the Company, or any of their respective associates. For details of the grant of Share Options, please refer to the announcement issued by the Company dated 2 October 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first three quarters of 2018, The Group continued to engage in the operation of clubbing business and organize music-related featured events. On top of that, we have expanded to restaurant and bar business in Hong Kong with the operation of our first restaurant, HEXA and the new roast-geese outlet “Oh-My-Goose” launched in May 2018.

BUSINESS REVIEW

During the period under review, while sales of beverage and entrance fees from retail customers of our clubbing business remained as the Group’s primary stream of revenue, we saw a significant growth and contribution to the Group’s total sales revenue from HEXA.

Club Cubic Macau maintained stable with consistent growth in sales performance. Being one of the largest and most prestigious hotspots in Macau, Club Cubic Macau continues to create events to bring the nightlife scene to Macau. In the first three quarters of 2018, we have organized a total of 40 events with 4 themed parties in Club Cubic Macau including our own branded theme party Full Moon party in September in celebration of mid-autumn festival, the Chinese New Year celebration party in February, Club Cubic Macau 7th Anniversary party and G2E Asia official party. We have been booking some of the biggest electronic music talents from around the world as well as consistently offered a wider variety of genres of electronic music & entertaining programs to attract crowds locally & tourists from international.

Leveraged on the rich experience of hosting events in Club Cubic Macau, the Group managed to organize variety of events in HEXA with a total of 61 events held in the first three quarters of 2018, including wedding parties, press conferences, product launch parties and movie shooting. Our corporate clients consist of international brands such as Mercedes-Benz.

Our annual music festival event held on 9 June 2018 at AsiaWorld-Expo, though the attendees were lower than expectation which might be due to the first move from conventionally outdoor to indoor performance this year, yet the event still attracted overseas attendees from Asia and around the world offering music lovers a multi-sensory experience with state-of-the-art audiovisual production.

Regarding the Group's restaurant business, HEXA, the Group's first restaurant implementing the innovative concept of integrating the contemporary Chinese cuisine with bar concept and clubbing elements, has recorded significant growth since its opening in the last quarters of 2017. As for the first three quarters of 2018, HEXA achieved approximately 70% growth in average monthly customer visits compared to the average monthly customer visits of last year. Customer average spending maintained at HK\$400 to HK\$500 per head.

Further to that, we have launched our new roast-geese outlet, "Oh-My-Goose" in May 2018 which is still under ramp-up operations. Different to the style of HEXA, Oh-My-Goose was designed as a trendy, fast and casual dining place target on trend-seeking young consumers.

FINANCIAL REVIEW

Revenue and Other Income and Gain

Total revenue of the Group was HK\$145.2 million for the first three quarters of 2018, representing a remarkable increase of 47% from HK\$98.8 million for the comparable period in 2017 despite the negative impact of the drop of HK\$7.4 million from the total revenue of our annual music festival event as compared to that of last year. The increase in revenue was primarily attributable to the revenue contribution from our first restaurant, HEXA which was opened in the last quarter of 2017. Besides, our clubbing business performed better than last year and achieved an aggregate increase of HK\$4.6 million, representing 6% growth in total revenue of the clubbing business. This was explained by the increase in sales of beverage in Club Cubic Macau driven by middle to high priced champagne products launched in the last quarter of 2017. In addition, sponsorship income also greatly improved in the period benefited from the large-scale events held in the first three quarters of 2018.

Other income and gain increased by HK\$1.1 million for the first three quarters of 2018 as compared to that of 2017. This was mainly contributed by the consultation fee charged on the associate company of the Group.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It increased by 73% from HK\$17.6 million in the first three quarters of 2017 to HK\$30.5 million in the same period of 2018. This was mainly attributable to the cost of food sold from HEXA and Oh-My-Goose, and the increased cost of beverage in proportion to the sales revenue increment of Club Cubic Macau, partly offset by the decrease of cost of beverage from our annual music festival event.

Staff costs represented one of the major components of the Group's operating expenses, which mainly consisted of staff salaries, retirement benefit scheme contribution and other benefits. Staff costs increased by 48% from HK\$27.5 million in the first three quarters of 2017 to HK\$40.6 million in the same period of 2018. The increase was primarily caused by additional staff costs incurred for HEXA and Oh-My-Goose.

Property rentals and related expenses increased notably by 60% from HK\$10.1 million in the first three quarters of 2017 to HK\$16.2 million in the same period of 2018. The increase was mainly due to the additional rentals and related expenses for the newly operated HEXA and Oh-My-Goose, and increase in contingent rentals paid to the owners of Club Cubic Macau partly offset by the lower rental cost of indoor venue for our annual music festival event.

Advertising and marketing expenses slightly increased by 4% from HK\$19.6 million in the first three quarters of 2017 to HK\$20.4 million in the same period of 2018. This was mainly attributable to the dramatic decrease of marketing expense for our annual music festival event which offset the increase of the promotion and marketing expenses from our newly operated HEXA and Oh-My-Goose.

Other operating expenses increased by 11% from HK\$31.0 million in the first three quarters of 2017 to HK\$34.4 million in the same period of 2018. The increase was mainly due to (i) the additional operating expense incurred in HEXA and the start-up costs of Oh-My-Goose (ii) the provision for impairment of account receivables of approximately HK\$0.5 million related to an individual account receivable of Club Cubic Macau which Club Cubic Macau has taken legal action against the individual to recover the outstanding receivable and (iii) partly offset by the notable drop of operating expense related to our annual music festival event.

Depreciation and amortization increased by 178% from HK\$1.8 million in the first three quarters of 2017 to HK\$5.0 million in the same period of 2018. The increase was explained by depreciation of newly acquired plant and equipment for HEXA and Oh-My-Goose.

Loss Attributable to the Owners of the Company

The Group recorded a net profit of approximately HK\$1.0 million in the first three quarters of 2018, whereas a net loss of approximately HK\$6.1 million was recorded in the same period of 2017. Net loss attributable to the owners of the Company was narrowed to approximately HK\$1.7 million for the first three quarters of 2018 as compared to HK\$4.7 million for that of last year. This was attributed to the remarkable performance of HEXA during the period under review which was partially offset by negative impact from the loss incurred in our annual music festival event caused by lower attendees due to the change from conventionally outdoor to indoor performance this year and the start-up costs of Oh-My-Goose outlet opened in May 2018.

OUTLOOK

The Group will continue to focus on our core strength in clubbing and restaurant operating business. The encouraging performance of Club Cubic Macau and HEXA in the period under review further strengthen the Group's foothold in the market.

We have been expanding the scale of Club Cubic Macau to cope with the business expansion. The expansion which comprises two phases of work, will provide more space endowing customers with a wealth of sophisticated club luxury experience. More events will be organized and enlarged operation team following the expansion to meet the ever growing market of leisure and entertainment demand.

More to that, the strong performance of HEXA underpinned the success of the Group's strategy in bringing distinctive dining experience to diner with unique stylish classic interior design and authentic Cantonese cuisine in contemporary twist.

On the solid foundation of success model of our first restaurant in Harbour City of Tsim Sha Tsui, the Group has embarked in the preparatory work of opening our second HEXA at Citygate Outlet of Tung Chung Town. Tung Chung, being a transportation hub for the Hong Kong-Zhuhai-Macau bridge which provides convenient connections between Lantau and major cities situated on the Pearl River Delta region, will be further fuelled to develop into a tourism and hospitality cluster for the upcoming decade. This marks an exciting step of the Group to extend the network leveraging on the established brand and experience.

In addition to the expansion of local network, the Group will sharpen focus to solicit opportunities to replicate our success model of clubbing and restaurant business in Mainland China. We believe our unique experience and network in the industry will definitely bring the Group promising business development in Mainland China.

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

As at 30 September 2018, the interests and short positions 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 (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 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
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%

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
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%
Mr. Au Ka Wai (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	1,604.44 ordinary shares of Welmen (L)	16.0444%

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 and so far as is known to the Directors, as at 30 September 2018, none of the Directors and the Company’s chief executives 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 30 September 2018, 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
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%

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest
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.
- (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. Choi Siu Kit 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 and so far as is known to the Directors, as at 30 September 2018, 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.

PURCHASES, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine-month period ended 30 September 2018.

INTEREST IN A COMPETING BUSINESS

As disclosed in the Prospectus, the controlling shareholders of the Company (the “Controlling Shareholders”) are interested in certain restaurant businesses in Macau (the “Retained Macau Restaurant Business”). Compared to the Group’s current clubbing business in Macau, the Retained Macau Restaurant Business has different industry nature, opening business hours and target customers. Compared to the Group’s restaurant and bar business and proposed restaurant business in Hong Kong, the Retained Macau Restaurant Business has different geographical operation. Accordingly, our Directors are of the view that the Retained Macau Restaurant Business are clearly delineated from the Group’s businesses and will not compete (either directly or indirectly) or are not likely to compete with the Group’s businesses.

As also disclosed in the Prospectus, our executive Directors, Mr. Choi Yiu Ying and Mr. Choi Siu Kit, are engaged in certain restaurant and bar business in Hong Kong (the “Retained HK Restaurant and Bar Business”). Set out below are the details of their interests in the Retained HK Restaurant and Bar Business during the nine-month period ended 30 September 2018:

Name of entity	Nature of interests
Global Profit Development Limited (Note 1)	Director and approximately 40% of its issued share capital was held by Mr. Choi Yiu Ying and Mr. Choi Siu Kit
Mighty Force Catering Group Limited (Note 2)	Approximately 50% of its issued share capital was held by Mr. Choi Siu Kit’s spouse, who was also a director
Sham Tseng Chan Kee Roasted Goose Company Limited (Note 2)	Approximately 7.5% of its issued share capital was held by Mr. Choi Siu Kit’s spouse
Eastern Full Limited (Note 2)	Approximately 7.5% of its issued share capital was held by Mr. Choi Siu Kit’s spouse

Note 1: Operates a bar and restaurant with trading name of Shelter in Hong Kong

Note 2: Operate/franchise restaurants with trading name of Sham Tseng Chan Kee in Hong Kong

As the Retained HK Restaurant and Bar Business was already engaged by our executive Directors, Mr. Choi Yiu Ying and Mr. Choi Siu Kit, before the Listing and the Group has not entered into any restaurant and bar business in Hong Kong prior to the Listing, therefore, such business are not covered by the deed of non-competition entered into by the Controlling Shareholders in favour of the Company.

As 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 organization and other promotional and/or marketing events in Hong Kong, the PRC and other countries. Below are the details of his interests in companies involved in such business during the nine-month period ended 30 September 2018:

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 organized 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 organization business in the foreseeable future. Hence, our Directors are of the view that the potential competition is relatively low and limited.

Saved as disclosed, during the nine-month period ended 30 September 2018, none of the Directors or the controlling shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or had any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

Further details on the analysis of the competition are set out in the section headed "Relationship with our Controlling Shareholders" in the Prospectus.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Innovax Capital Limited (the “Compliance Adviser”), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 9 February 2017, neither the Compliance Adviser nor its directors, employees involved in providing advice to the Group or their close associates (as defined under the GEM Listing Rules) had any interest in the Group (including options or rights to subscribe for the securities of the Group) which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

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 Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The audit committee consists of two independent non-executive Directors being Mr. Chan Ting Bond Michael and Mr. Lam Wai Chin Raymond and our non-executive Director, Mr. Au Wai Pong Eric. Mr. Chan Ting Bond Michael serves as the chairman of the audit committee. The primary responsibilities of the audit committee include but without limitation the following: (i) assisting the Board in providing an independent view of the effectiveness of our 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.

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2018.

BOARD OF DIRECTORS

As at the date of this report, the Directors are:

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 Ka Wai

Ms. Poon Kam Yee Odilia



Independent non-executive Directors:

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

By Order of the Board of
LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED
Choi Yiu Ying
Chairman and Chief Executive Officer

Hong Kong, 9 November 2018