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LUK HING ENTERTAINMENT GROUP

ANNUAL REPORT 2019

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 will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.lukhing.com.

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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 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

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. Tse Sui Ha

COMPLIANCE OFFICER

Mr. Choi Siu Kit

AUTHORISED REPRESENTATIVE

Mr. Choi Siu Kit
Ms. Tse Sui Ha

AUDITORS

HLB Hodgson Impey Cheng Limited

LEGAL ADVISORS

Hong Kong Law

Jingtian & Gongcheng LLP

Macau Law

Leong Hon Man Law Office

PRC Law

Jingtian & Gongcheng

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Bank of China Limited Macau Branch

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Hong Kong

CORPORATE INFORMATION

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
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Hong Kong

STOCK CODE

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WEBSITE

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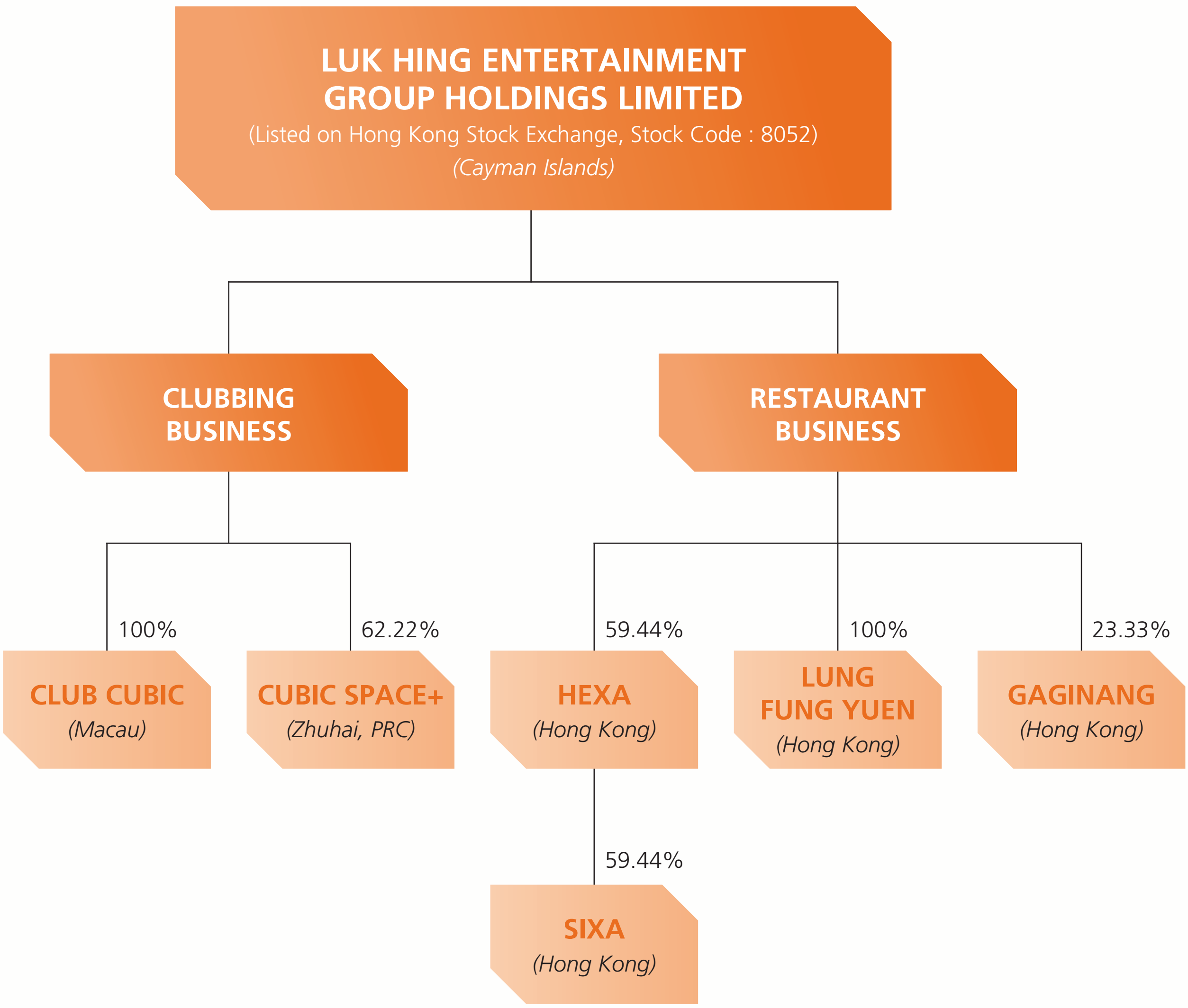
CORPORATE STRUCTURE



Note : (i) Corporate structure as at 31 March 2020
(ii) The above percentage is a proportion of effective equity interests
(iii) The businesses operated under various subsidiaries and associate of the Company

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the board of directors, I am pleased to present the performance of Luk Hing Entertainment Group Holdings Limited for the year ended 31 December 2019. Over the course of the year, we continued to strengthen our competitiveness and market position as a leading clubbing business operator in Macau, and expanding the clubbing business in Zhuhai City of the PRC which is named "Club Cubic Zhuhai". We also expanded our restaurant business gradually by opening a new restaurant in Citygate Outlet of Tung Chung Town Centre, Hong Kong which is named "SIXA".

For the year ended 31 December 2019, the Group recorded total revenue of approximately HK$225.4 million, representing an increase of 9% from approximately HK$206.9 million in 2018. The Group recorded net loss of HK$42.8 million in 2019, compared to net profit of HK$3.2 million in 2018.

BUSINESS ENVIRONMENT AND DEVELOPMENT

Clubbing Business

Affected by the uncertainties in global economy, Macau economy experienced a slowdown. The drop in tourist footfall in Macau tourism industry in the fourth quarter of 2019 affected the Group's clubbing business.

In the Macau clubbing business, the Company has renewed the Operating Agreement with City of Dreams' operator for a term until March 2027. Despite the slowdown in growth of the global economy, it is expected that the competition of Macau clubbing industry remains strong and therefore, the Company decided to refurbish Club Cubic Macau, and continue to introduce new concepts to increase the appeal to customers. The Company believes that this approach can retain repeat customers and get new customers.

Expanding the clubbing business to the Pearl River Delta is one of the Company's major strategies. In the third quarter of 2019, the Company has cooperated with different new business partners and set up Club Cubic Zhuhai in the PRC. Localization is one the best methods to put the startup business on track, in particular customer oriented business. So the Company engaged "Space plus+" to manage Club Cubic Zhuhai in December 2019. The Company modified the business model to fit the values, culture, attitudes and behavior patterns of the potential customers of Club Cubic Zhuhai. The Company also renamed Club Cubic Zhuhai and used a localize new brand named "CUBIC SPACE+" to enter into this new market. The management considered that "CUBIC SPACE+" has a stronger brand identity and can improve brand recall. The Company is confident that these changes can effectively boost the sales and can put the business on right track.

Restaurant Business

Hong Kong economic growth slowed down in 2019. In addition, the social incidents in Hong Kong throughout the second half of the year had an immediate adverse impact on the Group's restaurant business.

The business of HEXA remained stable because of its stable loyal customer base. The Company will continue to introduce some new menu to retain and attract more customers.

SIXA which is a sub-brand of HEXA, has commenced business operation at the end of August 2019. The intermittent closure of shops and restaurants brought by the social incidents resulted in a sharp drop in the number of visitors to Hong Kong. SIXA cannot benefit from the Hong Kong tourism industry at this moment. Therefore, the Company changed its menu to attract more local customer and joined food delivery platform in order to broaden its customer base.

OUTLOOK

The global economy in early 2020 have been adversely affected by concerns over the novel coronavirus pneumonia ("COVID-19") outbreak. It may have an impact on consumer confidence in 2020. In addition, all the Macau gaming premises suspended operation for 15 days as a result of the COVID-19 outbreak. Our Club Cubic Macau was also temporarily suspended of operation for some time. According to the PRC government policy in relation to emergency public health, our CUBIC SPACE+ was required to temporarily suspend its operation. In the time of COVID-19, Hong Kong people avoid going to crowded places and avoid dining outside. Our restaurant business has been facing an even more difficult business environment. The crisis may have a material impact on our 2020 financial results and our development plan.

2020 was an exceptionally challenging year. Our management team stepped up its efforts during these difficult times. The Company will continue to focus on its core business and manage to stabilize its business through adopting a prudent finance management approach with proactive implementation of cost control initiatives improving the operating performances.

In closing, I would like to express my appreciation for the management and all the staff for their efforts dedicated over the years and the ongoing support from the shareholders, Board of Directors and partners. I would also like to give my heartfelt thanks to all the Company's stakeholders for their generous assistance during this challenging time.

Choi Yiu Ying
Chairman and Chief Executive Officer
Hong Kong, 8 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2019, while the Group continued to engage in the operation of clubbing business "Club Cubic Macau" and the operation of our restaurant "HEXA" and the roast-goose outlet "Oh-My-Goose", we have our newly operated clubbing business in Zhuhai City of the PRC which is named "Club Cubic Zhuhai" and has commenced business operation at the end of August 2019, as well as a newly operated restaurant namely "SIXA" in Citygate Outlets of Tung Chung town center, Hong Kong, which has commenced business operation at the end of August 2019.

BUSINESS REVIEW

During the period under review, sales of beverage from retail customers of our clubbing business remained as the Group's primary stream of revenue while sales of food from HEXA played an important role in the contribution to the Group's total sales revenue. We also received sponsorship income from beverage suppliers for incentive based on our purchase amount from beverage suppliers.

Operation of Clubbing Business

Our clubbing business includes the operation of Club Cubic Macau which is the wholly-owned subsidiary of the Group and the newly operated clubbing business in Zhuhai City of the PRC, "Club Cubic Zhuhai" which the Group holds effective equity interests of 62.22%.

The market condition and consumer sentiment of Macau has been affected by numerous headwinds including ongoing trade tensions, slowing global economy and the social incidents of Hong Kong, particularly the impact on the fourth quarter of 2019 in which the inbound tourists dropped by 8% year-on-year according to Macau Tourism Statistics. The weaker market sentiment in the fourth quarter dragged down the sales performance of Club Cubic Macau leading to a slight drop in total sales revenue of 2019, despite that Club Cubic Macau recorded a 4% growth year-on-year in sales revenue in the first three quarter of 2019. Accordingly, Club Cubic Macau has taken actions to control costs and tightened operational expenses through effective manpower deployment. Besides, it will further enhance the service and focus on its strength to organize featured and regular events entertainment to customers. In 2019, Club Cubic Macau has organized a total of 53 events including our internal themed party and international live acts, among which our themed party held in April 2019 for celebration of Club Cubic Macau's 8th anniversary brought the most attention. Tiësto, the Dutch godfather of electronic dance music, was invited to rock the night, together with Australian multi-platinum recording artist, singer and producer, Vassy, as special guest to perform in the party. Furthermore, Club Cubic Macau has launched the new EDM Rave Ladies Night Havana Nights, themed parties including Full Moon Party (4th edition) and the first ever indoor splash party Song Cool Go Hydro. Renowned international music DJs such as Tiesto, Quintino, Vinai, Bassjackers and Wolfpack who were ranked in DJ Mag's Top 100 DJs poll, were invited to perform the events. Club Cubic Macau will continue to invite biggest electronic music talents worldwide offering a wide variety of genres of electronic music and entertaining programs to attract crowds locally and international tourists.

On 26 September 2019, the Company has renewed the Operating Agreement with City of Dreams' operator for a term until March 2027 and the operation of Club Cubic Macau continues to be a long-term business of the Group. In view of the intensive competition of clubbing business in Macau and the suspension of Club Cubic Macau Expansion (please refer to the Company's announcement dated 26 September 2019 for details), the Company considers that HK$20 million of the unutilized net proceeds through the listing on GEM on 11 November 2016 shall be allocated to the renovation of Club Cubic Macau including refurbishment of facilities to renew the existing premises and upgrading the equipments, the interior designs and image of the venue. In consideration of the weaker market condition and consumer sentiment in Macau, the renovation work might be delayed and expected to be completed in the fourth quarter of 2022 which we believe will strengthen the high-end experience of customers and solidify Club Cubic Macau's position as one of the best clubbing hotspots in the heart of Cotai area.

The balance of the unutilized net proceeds of HK$6.2 million through the listing on GEM on 11 November 2016 will be allocated to the establishment of the clubbing business in Guangzhou namely "Club Cubic Guangzhou" which the Company has identified the location in Four Seas Plaza at Panyu District, Guangzhou. The unutilized net proceeds as at 31 December 2019 was HK$2.2 million with expected completion in December 2020.

Our new clubbing business, Club Cubic Zhuhai commenced operation at the end of August 2019 and still in its ramp up period. Leveraging on the rich experience of operating Club Cub Macau, we are transforming the business model by integrating the local characteristics to offer customers diversified leisure and entertainment experiences. As part of localization of the business, we have engaged "Space plus+" to manage Club Cubic Zhuhai in December 2019. "Space plus+" possess vast experience of managing local clubbing business. Investment in Club Cubic Zhuhai extends the Group's clubbing business development portfolio to regions other than Macau which is in line with the Company's business strategy to mitigate risk exposure through working with local business partners.

Operation of Restaurant Business

For the year ended 31 December 2019, our restaurant HEXA achieved 7% increase year-on-year in sales revenue despite Hong Kong retail sales suffered worst decline on record amid the whammy of local social incidents. HEXA has received awards and accolades from the media and industry bodies, including the "100 Top Tables 2019" by South China Morning Post, and listed as one of the Masterchef Recommendation restaurants by Asia Art of Cuisine Society. HEXA continues to drive high recognition in the industry and has been invited by a numerous of appreciable organisation for collaborations and interviews. We are proud to be invited by Hong Kong Tourism Board x FeedMe Guru to promote Hong Kong Great November Feast — A Gourmet Celebration in November 2019; only 30 restaurants were selected in the city and the campaign turned out to be a great success and earned free media exposures in various of platforms such as Hong Kong Economic Times Group and New Media Group.

In addition, we were asked for participating in "Seafood Loves Sake" promotion campaign 2019 hosted by JFOODO (the Japan Food Product Overseas Promotion Centre) which will be featured in different media platforms such as TV commercials and infomercial TV programmes on ViuTV, Digital and Social Platforms including but not limited to TimeOut Hong Kong, Facebook and so on. At the same time, we had also been featured as one of the 'TO GO' restaurants in Hong Kong in a special TV travel programme hosted by Nippon Television Network Corporation (NTV) in August 2019. We are more than happy that our restaurant is gaining more exposure to the overseas markets and we strive to grow our business continually.

Our new restaurant, namely "SIXA" which is a wholly-owned subsidiary of HEXA, located at Citygate Outlets of Tung Chung town center, was unveiled at the end of August 2019. The restaurant is still in its ramp up period and the sales performance was affected by the disruption to inbound tourism and consumption-related activities caused by the local social incidents since the third quarter of 2019. Despite the impact from the weak market sentiment in the second half of 2019, SIXA maintained satisfying reputation within Tung Chung community. We earned excellent word of mouth about our food and service qualities across social media platforms from diners. Number of publications have made their visits at the restaurants since September 2019, including and not limited to OpenRice, U Food, AM730, Sing Tao, U Magazine, The Standard, etc. We have been reconstructing our menu and tailor made set menus to meet the needs of nearby residents and diners which had further boosted our reputation. In parallel, we have implemented short term and long term measures to control costs and drive efficiency. We believe the high level of our flexibility is one of our keys towards success and we look forward to maintaining the prominence in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Total revenue of the Group increased by 9% from HK$206.9 million in 2018 to HK$225.4 million in 2019 though we have the negative impact from the drop of sales revenue of HK$12.2 million for not hosting the annual music festival event in 2019 in Hong Kong as compared to that of 2018. The growth was mainly contributed by: (i) HEXA achieved 7% growth in sales revenue from HK$67.5 million in 2018 to HK$72.4 million in 2019; (ii) Sales of food and beverages generated from Club Cubic Zhuhai of HK$18.5 million and SIXA of HK$7.4 million, which were opened at the end of August 2019; and (iii) partially offset by 2% drop of sales revenue of Club Cubic Macau from HK$123.0 million in 2018 to HK$121.1 million in 2019.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It increased by 21% from HK$44.6 million in 2018 to HK$53.9 million in 2019. This was mainly attributed to the increase in costs of food from HEXA and the costs of food and beverage from the newly operated SIXA and Club Cubic Zhuhai, partially offset by the decrease of beverage costs in Club Cubic Macau and our annual music festival event as it was not held in 2019.

Staff costs represented one of the major components of the Group's operating expenses, which mainly consisted of Directors' emoluments, salaries, retirement benefit scheme contribution and other benefits. Staff cost increased by 39% from HK$55.8 million in 2018 to HK$77.4 million in 2019. This was mainly due to (i) the additional staff recruited in HEXA to cope with the increase in sales; (ii) increase in staff cost in Club Cubic Macau caused by staff salary adjustment; and (iii) additional staff costs incurred for the newly operated SIXA and Club Cubic Zhuhai.

Property rentals and related expenses decreased by 41% from HK$26.3 million in 2018 to HK$15.5 million in 2019. This is mainly due to the adoption of HKFRS 16 Leases which has become effective from 1 January 2019. Under the application of HKFRS 16, the Group's operating leases were removed and replaced by the model where a right-of-use asset and a corresponding liability were recognised for all leases, except for short-term leases and leases of low value assets. The right-of-use asset was initially measured at cost and subsequently measured at cost less accumulated depreciation. The lease liability is initially measured at the present value of the lease payments that are not paid and subsequently adjusted for interest and lease payments. The application of new requirements resulted in the changes in measurement and presentation from under property rentals to depreciation and interest for lease payments. Excluding the accounting effect of adopting HKFRS16 Leases, the Group's actual rentals and related expenses increased by 12% to HK$29.5 million in 2019. This was primarily caused by the additional rentals and related expenses incurred for the newly operated SIXA and Club Cubic Zhuhai.

For the same reason explained above, the application of HKFRS 16 Leases has resulted in the increase in depreciation and amortization by 286% from HK$6.7 million in 2018 to HK$25.7 million in 2019. Excluding the accounting effect of adopting HKFRS 16 Leases, the actual depreciation expense increased by 68% to HK$11.2 million in 2019. This was mainly caused by the additional depreciation expenses incurred by the newly operated SIXA and Club Cubic Zhuhai.

Advertising and marketing expenses increased by 14% from HK$27.4 million in 2018 to HK$31.4 million in 2019. This was attributed to the additional marketing expenses incurred for the newly operated SIXA and Club Cubic Zhuhai, partially offset by the decrease in performer fees incurred for Club Cubic Macau and reduction in promotion and marketing expenses as we did not host our annual music festival event in 2019.

Other operating expenses increased by 38% from HK$46.7 million in 2018 to HK$64.5 million in 2019. The increase was mainly caused by: (i) the write-off of HK$2.1 million for the preliminary planning and design costs for the expansion model of Club Cubic Macau due to the suspension of Club Cubic Macau expansion (please refer to the Company's announcement dated 26 September 2019 for details); (ii) additional HK$13.1 million operating expenses incurred by the newly operated Club Cubic Zhuhai among which HK$6.7 million was the consultancy fee to a local company for event planning and organizing services; and (iii) additional HK$2.9 million operating expenses incurred for our newly operated SIXA and (iv) increase of HK$6.4 million professional fee for corporate transactions, sales coupon expense and miscellaneous expenses such as uniform, consumables, repair and maintenance; (iv) partially offset by the reduce in HK$7.7 million expenses for not hosting our annual music festival event in 2019 compared to that of 2018.

Loss Attributable to Owners of the Company

Our loss for the year attributable to owners of the Company was HK$30.6 million while we recorded a profit of HK$2.2 million attributable to owners of the Company in 2018. The loss was primarily attributable to:

(i) The effects of the application of Hong Kong Financial Reporting Standard 16 "Leases" ("HKFRS 16", effectively from 1 January 2019) on the expenditures spent on the leases of the clubbing and restaurants;

(ii) The pre-opening and startup costs of our newly operated clubbing business in Zhuhai City of the PRC which is named "Club Cubic Zhuhai" and renamed to "CUBIC SPACE+" in December 2019. It has commenced business operation at the end of August 2019;

(iii) The pre-opening and startup costs of our newly operated restaurant, namely "SIXA" in Citygate Outlets of Tung Chung town center, which has commenced business operation at the end of August 2019; and

(iv) The weak sales performance of "SIXA" hit by sharp decline in inbound visitors and the continuous weak economic environment and consumer sentiments of the society.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Below is a summary of the key financial ratio:

	Notes	As at 31 December 2019	As at 31 December 2018
Current ratio	1	1.1	2.8
Quick ratio	2	1.0	2.6
Debt-to-asset ratio	3	87.4%	31.6%

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. Debt-to-asset ratio is calculated by dividing total liabilities by total assets as at the respective period end.

The Group has cash and cash equivalents of HK$23.3 million as at 31 December 2019 (31 December 2018: HK$41.0 million).

In 2019, the Group has conducted fundraisings to finance our new business of Club Cubic Zhuhai and SIXA including:

(i) issue of Convertible Loans with aggregate principal amount of approximately HK$9.1 million at interest rate of 9% per annum with the term commencing from 10 June 2019 until 36 months from opening of Club Cubic Zhuhai on 23 August 2019. The Company guarantees that the minimum interest payable to Lenders shall be 9% per annum of the convertible Loans in accordance with the Interest Period. The proceeds were used for the acquisition of Oasis Capital which were then injected to Zhuhai JV Company for the purchase of fixed assets and renovation of Club Cubic Zhuhai;

(ii) issue of Convertible Promissory Notes with aggregate principal amount of approximately HK$18.2 million at interest rate of 9% per annum with the term commencing from 3 July 2019 until 36 months from opening of Club Cubic Zhuhai on 23 August 2019. The Proceeds were used by the Group as the additional investment in Zhuhai JV Company;

(iii) issue of Convertible Promissory Notes with principal amount of approximately HK$27.2 million subjects to completion on/before 30 June 2020 for financing our investment in Club Cubic Guangzhou; and

(iv) a HK$5.1 million revolving loan for life insurance policy premium financing from China Citic Bank International Limited which was pledged by the financial assets at FVTPL. The Group purchased the life insurance policy (the "Policy") and the Company is the beneficiary and policy holder. In addition, corporate guarantee of the Company was provided to a revolving loan facility of HK$6 million for the subsidiary of the Company, Betula Profit Holdings Limited which operates HEXA and SIXA. The loan facility was used for the renovation of SIXA which is wholly-owned by Betula Profit Holdings Limited.

As such, the Group has an aggregate long-term outstanding amount of approximately HK$38.4 million as at 31 December 2019. Apart from that, the Group has outstanding amount of HK$6 million from the bank overdraft facility for which the Company provided its corporate guarantee. The increase of long-term and short-term liabilities led to the decrease of the Group's key financial ratio.

The Group financed its renovation of Club Cubic Macau from the net proceeds through the listing on GEM on 11 November 2016. The Group's operations are financed principally by revenue generated from its business operation as well as bank borrowings.

FUNDRAISINGS THROUGH ISSUE OF CONVERTIBLE PROMISSORY NOTES AND CONVERTIBLE LOANS FOR SHARES IN SUBSIDIARY/AFFILIATE OF THE COMPANY

	Convertible Loans	Convertible Promissory Notes
Principal amount	approximately RMB8 million (equivalent to approximately HK$9.08 million)	approximately RMB16.0 million (equivalent to approximately HK$18.16 million)
Fixed Interest Rate	9% per annum	9% per annum
Term of the Convertible Promissory Notes	Commencing from 10 June 2019 until 36 months from opening of Club Cubic Zhuhai on 23 August 2019.	Commencing from 3 July 2019 until 36 months from opening of Club Cubic Zhuhai on 23 August 2019.

	Convertible Loans	Convertible Promissory Notes
Exercise of Conversion	At the end of the term of the Convertible Loan Agreements, Lenders shall have the right to convert the Convertible Loans to shares of an affiliated company of Luk Hing Capital Limited, provided that such affiliate shall be designated by Luk Hing Capital Limited. Assuming all Convertible Loan lenders exercised the conversion, the conversion would have the effect of disposing 5.34% of the Company's effective equity interests in Zhuhai JV Company ***(Please refer to the announcement of the Company dated 10 June 2019)***	Any time after the date of issue of this Note and up to and including the Maturity Date, Convertible Promissory Notes holders shall have the right to convert the entire principal amount of the Convertible Promissory Notes in USD to such percentage of shareholding of Luk Hing Group Development (China) Limited which shall be calculated based on the Conversion Ratio of USD100,000 of the principal amount to 1.03% of shares of Luk Hing Development (China) Limited. Assuming all the Convertible Promissory Notes holders exercised the conversion, the conversion would have the effect of disposing 10.67% of the Company's effective equity interests in Zhuhai JV Company. ***(Please refer to the circular of the Company dated 22 August 2019)***
Use of Proceeds	The Convertible Loans shall be used for the acquisition of Oasis Capital which holds 48.33% of Zhuhai JV Company. The proceeds of acquisition will then be injected to Zhuhai JV Company for the purchase of fixed assets and renovation of Club Cubic Zhuhai and other daily business activities of the Zhuhai JV Company. The proceeds have been completely used according to the intended purpose as at 31 December 2019.	The proceeds are intended to be used by the Group as the additional investment in Zhuhai JV Company. The proceeds have been completely used according to the intended purpose as at 31 December 2019.

CHARGES ON ASSETS

As at 31 December 2019, the Group did not have any charges on its assets except the pledge of the life insurance policy to China Citic Bank International Limited for the revolving loan facility of HK$5.1 million for the life insurance policy premium financing.

CHANGE IN USE OF PROCEEDS

On 26 September 2019, the Board has resolved to change the use of approximately HK$26.2 million out of the remaining unutilized Net Proceeds (the "unutilized Net Proceeds" from the listing of GEM on 11 November 2016). Breakdown of the planned use of net proceeds as stated in the Prospectus, the actual use of Net Proceeds utilized up to the date on 26 September 2019, unutilized Net Proceeds as at 26 September 2019, the proposed change of use of unutilized Net Proceeds and the unutilized Net Proceeds as at 31 December 2019 are summarized as follows:

	Planned use of Net Proceeds as stated in the Prospectus (adjusted on a pro-rata basis according to the actual Net Proceeds) (HK$ million)	Utilized Net Proceeds up to the date on 26 September 2019 (HK$ million)	Unutilized Net Proceeds up to the date on 26 September 2019 (HK$ million)	Proposed Change of use of unutilized Net Proceeds (HK$ million)	Unutilized Net Proceeds as at 31 December 2019 (HK$ million)
Expansion of the scale of Club Cubic Macau (the "Club Cubic Macau Expansion")	32.3	6.1	26.2	–	–
Organizing events in venues other than Club Cubic Macau	13.8	13.8	–	–	–
Expansion in regions other than Macau	13.0	13.0	–	6.2	2.2
Working capital and general corporate use	6.5	6.5	–	–	–
Renovation of Club Cubic Macau	–	–	–	20.0	11.7

REASONS FOR CHANGE IN USE OF PROCEEDS

Suspension of the Club Cubic Macau Expansion

The Group originally allocated approximately HK$32.3 million from the Net Proceeds for the Club Cubic Macau Expansion and as at 26 September 2019, approximately HK$6.1 million has been utilized mainly for the design fee of expansion model, project control and management, and the engagement of professional consultants.

The Company has negotiated with City of Dreams' operator ("COD") in relation to the Club Cubic Macau Expansion. However, as no agreement was reached between the Company and COD on the final commercial terms, the Board has resolved to suspend the Club Cubic Macau Expansion and to reallocate unutilized Net Proceeds to the renovation of Club Cubic Macau and establishment of Club Cubic Guangzhou.

For the utilized Net Proceeds on Club Cubic Macau Expansion of approximately HK$6.1 million, approximately HK$4.0 million of the utilized Net Proceeds will be reassigned as follows: (i) approximately HK$2.2 million comprising the design fee of the expansion model and deposit for decoration and materials purchased for Club Cubic Macau Expansion will be reassigned to the renovation of Club Cubic Macau; and (ii) approximately HK$1.8 million comprising project control and management provided by the same professional parties engaged by the Group will be reassigned to the Group's expansion in regions other than Macau.

Renovation of Club Cubic Macau

On 26 September 2019, the Company renewed the Operating Agreement with COD for a term until March 2027 and the operation of Club Cubic Macau continues to be a long-term business of the Group. In view of the intensive competition of clubbing industry in Macau and the suspension of Club Cubic Macau Expansion, the Board considers that part of the unutilized Net Proceeds shall be reallocated to the renovation of Club Cubic Macau in order to provide a high-end clubbing experience to customers and to solidify Club Cubic Macau's position as one of the best clubbing hotspots in the heart of Cotai area. The unutilized Net Proceeds are intended to be used in carrying out renovation works and refurbishment of facilities to renew the existing premises, including but not limited to upgrading the equipment, improving the overall appearance, interior design and image of the venue. Upon completion of renovation, the Board is of the view that (i) the premises of Club Cubic Macau will be upgraded and will attract privilege customers with strong spending power; and (ii) the brand name of "Club Cubic" will be strengthened.

In light of the above, HK$20.0 million of the unutilized Net Proceeds will be reallocated to renovation of Club Cubic Macau. The breakdown of the intended use of the reallocated Net Proceeds for renovation of Club Cubic Macau and the expected timeline are summarized as follows:

Stage	Renovation plan and activity	Reallocated Net Proceeds (HK$ million)	Unutilized Net Proceeds as at 31 December 2019 (HK$ million)	Expected completion
Stage 1	Renovation and fitting out works in the VIP rooms, public toilet and main hall	7.7	–	Completed
Stage 2	Renovation and fitting out works in main hall and arrival hall, upgrade of lightings and equipment in main hall	8.7	8.1	April 2022
Stage 3	Renovation and fitting out works in the junior hall	3.6	3.6	December 2022
	Total	**20.0**	**11.7**	

The renovation works were expected to be delayed in consideration of the weak market condition and consumer sentiment in Macau.

Establishment of Club Cubic Guangzhou (Expansion in regions other than Macau)

In light of the economic growth in Greater Bay Area and in order to broaden the business spectrum of the Group, the Group is expanding the clubbing business in PRC. The Group has identified the location of Club Cubic Guangzhou in Four Seas Plaza at Panyu District, Guangzhou. The proposed operation of clubbing business in PRC enable the Group to diversify and broaden its earning base and lay a sound foundation for further expansion of the Group in the future. For details of the establishment of Club Cubic Guangzhou, please refer to the circular of the Company dated 22 August 2019.

In light of the above, HK$6.2 million of the unutilized Net Proceeds has been reallocated to the establishment of Club Cubic Guangzhou. The unutilized net proceeds as at 31 December 2019 was HK$2.2 million with expected completion in December 2020.

For details of the change in use of proceeds, please refer to the announcement of the Company dated 26 September 2019.

Principal risks and uncertainties	Measures
(i) A major 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.	(1) The Company will continue to review and fine-tune its strategy when organizing music-related featured events in Club Cubic Macau, including the number of events held, the scale of the events and resources required (such as DJ/artist fee and other marketing expenses), as well as the timing, such that our resources could be optimized to stimulate the sales of Club Cubic Macau at the appropriate time. (2) We have carried out renovation to maintain the competitiveness of Club Cubic Macau. (3) We have explored opportunities to diversify our operation such that we can reduce our reliance on Club Cubic Macau and our largest suppliers. We have successfully operating HEXA. We achieved remarkable progress in 2019 having our new restaurant "SIXA" opened at Citygate Outlet of Tung Chung Town and "Club Cubic Zhuhai" in Zhuhai.
(ii) We made our purchases mainly from our largest supplier and our five largest suppliers. The 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. 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.	
(iii) Compliance with Relevant Laws and Regulations.	The Group has in place compliance and risk management procedures and policies monitor adherence with all significant legal and regulatory requirements. The Group has observed strict compliance with the applicable laws and regulations and implemented a comprehensive safety management system for the kitchens of the Group, with an objective to continuously improving the Group's food quality and hygiene standards.
(iv) We plan to diversify our sources of revenues and mitigate our risks of over-reliance on Club Cubic Macau. When expanding our clubbing business 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. We may incur substantial start-up and pre-opening costs, such as additional staff costs, rentals, professional fees and promotion expenses, before the opening of new outlets.	When expanding our clubbing business 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 and ease our financial burden.

Principal risks and uncertainties	Measures
(v) Coronavirus Disease 2019 (“COVID-19”)	
(1) The outbreak of COVID-19 suspending or limiting services in Macau, Hong Kong and PRC, the business activities of the Company generally been suspended or slowed down. The Directors expect the Company to record a significant decrease in sales and may have an adverse Impact on the Group’s financial performance for the first quarter of 2020.	(1) The Group is closely observing the development of the outbreak of the COVID-19 while carrying out cost control measures to alleviate the overall impact of the outbreak on the business operations and financial position of the Group.
(2) The continuing spread and prolonged occurrence of COVID-19 could have an adverse effect on the tourism Industry in Macau, Hong Kong and the PRC as well as the overall economy in worldwide. All these factors may have adverse impact on our business, operation, financial condition and prospects.	(2) The Group is closely observing the development of the outbreak of the COVID-19 and the effect on the tourism industry. The management will closely monitor the development and change its policy and/or menu to match both the tourists and local customers.

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2019, a significant portion 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.

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2019, there was no significant investment held by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed under the section headed “Fundraisings through Issue of Convertible Promissory Notes and Convertible Loans for Shares in subsidiary/affiliate of the Company” in this annual report, during the year ended 31 December 2019, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

DIVIDEND

The Board does not recommend the payment of dividend by the Company for the year ended 31 December 2019.

BOARD OF DIRECTORS

Executive Directors

Mr. Choi Yiu Ying (蔡耀陘) (with former names Choi Siu Man (蔡紹文) and Choi Siu Ying (蔡兆鈃)) ("Mr. Simon Choi"), aged 43, 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 is the chairman of the nomination committee of the Board.

Mr. Simon Choi has over 18 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 (from May 2013 to June 2019), 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. Simon Choi is also the son of Mr. Choi Kuen Kwan, who is one of the shareholders of Welmen.

Mr. Choi Siu Kit (蔡紹傑) ("Mr. John Choi"), aged 42, 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 18 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 (from May 2013 to June 2019), 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. Mr. John Choi is also the son of Mr. Choi Kuen Kwan, who is one of the shareholders of Welmen.

Mr. Yeung Chi Shing (楊志誠), aged 48, 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 51, 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 is a member of each of the audit committee and remuneration committee of the Board.

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. From July 2008 to June 2017, 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 Ka Wai (歐家威), aged 43, was appointed as a non-executive Director of our company on 9 August 2018, and is primarily responsible for overseeing management and strategic planning of our Group. Mr. Au is the son of Mr. Au Ion Weng, a non-executive Director up to 9 August 2018.

Mr. Au has over 11 years of working experience in real estate and tourism industries. He is the executive directors of J&C Real Estate Property Limited and Rich City Travel Agency Limited, both are private companies incorporated in Macau. Mr. Au also has extensive experience in retail management and general management.

Mr. Au received a bachelor degree in laws from Macau University of Science and Technology in 2004. Mr. Au is one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Welmen.

Ms. Poon Kam Yee Odilia (潘錦儀), aged 59, 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. From January 2014 to June 2017, she served as a director in Motiva Consulting Limited where she oversees the overall management of the company. Since August 2015, she served as a director of the Chapman Consulting Group Limited and since June 2017, she was appointed as a non-executive Director of Vistar Holdings Limited, which is listed on GEM (stock code: 8535) on 12 February 2018, where she is primarily responsible for overseeing the management and strategic planning.

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 49, 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 is the chairman of the remuneration committee of the Board and a member of each of the audit committee and the nomination committee of 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, aged 39, was appointed as an Independent Non-executive Director of the Company on 18 October 2016 taking effect on 11 November 2016; and is primarily responsible for providing independent judgment to the Board. Mr. Chan serves as the Chairman of the Audit Committee of the Board.

Mr. Chan is currently serving as Chief Operating Officer in Inchcape Greater China, a subsidiary of Inchcape Plc. (Stock Code: INCH), a company listed on the London Stock Exchange. He possesses extensive multi-industry experience in corporate strategy and planning, sales operation management, business development, corporate finance and change management. Mr. Chan commenced his career with PricewaterhouseCoopers in Sydney, Australia as a Senior Associate from February 2000 to February 2006, and then relocated to Hong Kong and joined KPMG as a manager from March 2006 to August 2007. He later joined Ping An of China Asset Management (Hong Kong) Company in August 2007, and served as Vice President in Global Business Development until March 2011. Joined Jardine Matheson Group in June 2011, Mr. Chan first served as the Corporate Finance Manager in Jardine Cycle & Carriage Limited in Singapore, followed by his appointment as the Corporate Planning Director in Dairy Farm Group from January 2012 to March 2014. Mr. Chan was subsequently appointed to Zung Fu Group in April 2014, where he served as General Manager, Strategy & Operations until April 2019.

Mr. Chan is currently an Independent Non-executive Director, Chairman of Remuneration Committee, a member of Audit Committee and Nomination Committee of Integrated Waste Solutions Holdings Limited (Stock Code: 923), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Chan is a Chartered Financial Analyst of the CFA Institute and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Accountants Australia and New Zealand. In addition, he is qualified as a member of the Chartered Alternative Investment Analyst Association and a Financial Risk Manager of the Global Association of Risk Professionals. Mr. Chan 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 and holds a bachelor's degree of commerce (majoring in accounting and finance) from the University of New South Wales.

Mr. Tse Kar Ho Simon (謝嘉豪), aged 63, 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 is a member of each of the remuneration committee and the nomination committee of 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 19 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can benefit from good corporate governance. 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.

The Company adopted and complied 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 promote 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.

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 consolidated 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 management with 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.

The Board currently comprises 9 Directors, including 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors, and the Director's details during the year and up to the date of this annual report are 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 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

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.

BOARD DIVERSITY POLICY

The Board has adopted the Board diversity policy since 10 November 2016 and reviewed its Board composition on a yearly basis. 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 reviews and monitors the implementation on the Board diversity policy periodically and the Board diversity policy has been published on the website of the Company up to the date of this annual report.

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.

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, 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.

TRAINING, INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors are continuously updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities by the Company. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills.

Up to the date of this report, all Directors have confirmed to the Company that they have participated trainings by attending seminars, conferences and/or reading material, webcast, newspapers, journals and updates related to the economy, the company's business or directors' duties and responsibilities.

DIRECTORS' SECURITIES TRANSACTIONS

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 for the year ended 31 December 2019. 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.

BOARD MEETINGS

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. For the year ended 31 December 2019, the Company has held four Board meetings in total. The attendance record of each Director at Board meetings, audit committee meetings, remuneration committee meeting, nomination committee meeting and general meeting during the year ended 31 December 2019 is set out in the following table:

Name of Directors	Board Meetings (attendance/ total no. of meeting held)	Audit Committee Meetings (attendance/ total no. of meeting held)	Remuneration Committee Meeting (attendance/ total no. of meeting held)	Nomination Committee Meeting (attendance/ total no. of meeting held)	General Meeting (attendance/ total no. of meeting held)
Executive Directors					
Mr. Choi Yiu Ying	6/6	N/A	N/A	1/1	1/1
Mr. Choi Siu Kit	6/6	N/A	N/A	N/A	1/1
Mr. Yeung Chi Shing	6/6	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Au Wai Pong Eric	6/6	4/4	1/1	N/A	0/1
Mr. Au Ka Wai	6/6	N/A	N/A	N/A	0/1
Ms. Poon Kam Yee Odilia	6/6	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Lam Wai Chin Raymond	6/6	4/4	1/1	1/1	1/1
Mr. Chan Ting Bond Michael	5/6	4/4	N/A	N/A	1/1
Mr. Tse Kar Ho Simon	2/6	N/A	1/1	1/1	1/1

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.

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. Up to the date of this annual report, the nomination policy (the "Nomination Policy") has been adopted by the nomination committee in assistance to the Board in making recommendations to the Board on the appointment of Directors of the Company and succession planning for Directors. The Nomination Policy provides the key selection criteria and principles of the nomination committee in making any such recommendations.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the nomination committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries;

(c) commitment in respect of sufficient time and attention to the Company's business;

(d) diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience;

(e) the ability to assist and support management and make significant contributions to the Company's success;

(f) compliance with the criteria of independence as prescribed under Rule 5.09 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the appointment of an independent non-executive Director; and

(g) any other relevant factors as may be determined by the nomination committee or the Board from time to time.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations.

The secretary of the nomination committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the nomination committee. The nomination committee may also nominate candidates for its consideration. In the context of appointment of any proposed candidate to the Board, the nomination committee shall undertake adequate due diligence in respect of such individual and make recommendations for the Board's consideration and approval. In the context of re-appointment of any existing member(s) of the Board, the nomination committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting. Please refer to the "Procedures for Shareholders to Convene General Meetings", which is available on the Company's website, for procedures for shareholders' nomination of any proposed candidate for election as a director. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

Any subsequent amendment of the Nomination Policy shall be reviewed by the nomination committee and approved by the Board.

One meeting was held during the year ended 31 December 2019. All members attended the meeting. The members of the nomination committee reviewed the composition of the Board, the retirement and re-election of Directors and made recommendation to the Board.

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.

One meeting was held during the year ended 31 December 2019. All members attended the meeting. They made recommendation to the Board regarding the Company's remuneration policy and the remuneration package of all directors (excluding his own remunerations) of the Company. No Director was involved in deciding his own remuneration during the year under review.

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.

Four meetings were held by the Audit Committee during the year ended 31 December 2019. Please refer to the attendance sheet table under Board Meeting for the individual attendance of each member. The Group's quarterly reports, interim report and the annual report had all been reviewed by the audit committee and recommendation was provided to the Board for approval.

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENT AND REMUNERATION OF AUDITORS

The Directors acknowledge their responsibility for the preparation of the Group's consolidated 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 consolidated financial statements are set out in the report of the auditors of this annual report.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019 and recommended approval to the Board.

The consolidated financial statements of the Group for the year ended 31 December 2019 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 services and disbursements	950
Total	950

COMPANY SECRETARY

Ms. Tse Sui Ha was appointed as the company secretary of the Company on 18 November 2019 pursuant to Rule 5.14 of the GEM Listing Rules. Ms. Tse is an employee of the Company and obtained a practitioner's endorsement of the Hong Kong Institute of Chartered Secretaries. Ms. Tse has confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2019 in compliance with Rules 5.15 of the GEM Listing Rules.

DIVIDEND POLICY

The Company has adopted a policy concerning the payments of dividend. The Company gives priority to distributing dividend in cash and shares its profits with its shareholders. The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company's financial results, future prospects and other factors, and subject to:–

— the Articles of Association of the Company;

— the applicable restrictions and requirements under the laws of the Cayman Islands;

— any banking or other funding covenants by which the Company is bound from time to time;

— the investment and operating requirements of the Company; and

— any other factors that have material impact on the Company.

The Board may consider distributing special dividend to all shareholders, and the amount of which shall be determined and approved by the Board at its absolute discretion.

Under the Cayman Islands Companies Act and the Articles of Association of the Company, all of our shareholders have equal entitlement to dividends and distributions. The Board shall have the right to review the dividend policy from time to time as it deems fit according to the financial and business development requirements of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is ultimately responsible for the risk management of the Group and has 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 to be reasonably safeguards, if not absolute assurances, 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. During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems.

A risk management team consists of, among others, our executive Directors and management who in general have experiences in club or restaurant management over eight years, was formed at operational level. The risk management team oversees the implementation and monitoring our internal control, which includes but not limited to (i) quarterly 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) quarterly 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.

Internal Control System

The Company has in place an internal control system which enables the Company to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the internal control system are shown as follow:

- Control Environment: a set of standards, processes and structures that provide the basis for carrying out internal control across the Group;

- Risk Assessment: a dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed;

- Control Activities: action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out;

- Information and Communication: internal and external communication to provide the Group with the information needed to carry out day-to-day controls;

- Monitoring: ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

During the year, the audit committee appointed external professional adviser to conduct an internal control review on the effectiveness of the Group's internal control systems. The external professional adviser is assigned with the task to perform reviews on operational, financial and compliance aspects and will alert the management on the review findings or irregularities, if any, advise on the implementation of necessary steps and actions to enhance the internal control systems of the Group. The risk management team had implemented rectifications and remediated internal weakness identified. The result of internal control review and agreed action plans are reported to the Audit Committee and the Board.

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.

Save as disclosed above, 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

The Company has not made any change to its constitutional documents during the year. A consolidated version of the Company's constitutional documents is available on the Company's website and the website of 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.

- 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

INTRODUCTION

This is the fourth Environmental, Social and Governance Report prepared in accordance with our environmental, social and governance ("**ESG**") performance. During the year, the board appointed an independent professional adviser to report on the ESG performance of the Company.

This Report is prepared mainly with reference to the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") contained in Appendix 20 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("**HKEx**"), covering the ESG related information of our Company; and the reporting period is the same as the fiscal year of the Company. The purpose of this ESG report is to disclose an overall review to shareholders the management measures and performance of the Company in 2019 in terms of the environment, society and governance.

I. DEFINITION AND INTERPRETATION

Throughout this report, the following terms, except where the context otherwise requires, have the following meanings:

- **Group** : refers to LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED and its subsidiaries
- **ESG** : means ENVIRONMENTAL, SOCIAL AND GOVERNANCE
- **Appendix 20 or ESG Reporting Guide** : refers to the Appendix 20 — Environmental, Social and Governance Reporting Guide of the Listing Rules
- **GEM** : GEM of the Stock Exchange of Hong Kong Limited
- **Hong Kong** : The Hong Kong Special Administrative Region of the People's Republic of China, including Hong Kong Island, Kowloon and the New Territories
- **Macau** : The Macao Special Administrative Region of the People's Republic of China
- **PRC** : The People's Republic of China
- **KPIs** : means "Key Performance Indicators"
- **Listing Rules** : means the Rules Governing the Listing of Equity Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
- **HKEx** : means The Stock Exchange of Hong Kong Limited

II. OVERVIEW

(I) Purpose

Luk Hing Entertainment Group Holdings Limited (the "**Company**"), together with its subsidiaries (referred to as the "**Group**"), is listed on the GEM of the Stock Exchange of Hong Kong Limited ("**HKEx**"). In accordance with the requirements of HKEx, listed companies are required to provide an environmental, social and governance report ("**ESG Report**"). This is the fourth ESG Report since the company's listing and outlines the Group's vision, policies and measures including Key Performance Indicators ("**KPIs**"), and reports its performance regarding environmental and social issues for internal assessment and management control, and for communication to the internal and external stakeholders.

(II) Scope of Report

Our main business is the operation of the Cubic nightclub in Macau and expansion of the Cubic brand into new nightclub opportunities and the organization of music-related events in Macau, Hong Kong and China. We have also expanded fully into the operation of new food and beverage establishments in Hong Kong with the award winning HEXA fine dining restaurant and its the newly opened sub-brand SIXA as well as the Lung Fung Yuen hotpot restaurant. This ESG report covers the operation and activities of our Cubic nightclub in Macau, and our restaurants and administrative office in Hong Kong.

(III) Basis of Preparation

This is our fourth ESG Report since our listing on the GEM of the HKEx and is compiled in accordance with the ESG reporting guide (the "**ESG Reporting Guide**") outlined in Appendix 20 of the GEM Listing Rules and Guidance Governing the Listing of Securities on HKEx. The content of this report includes two main subject areas as outlined and required by the Guide, being Area A — ENVIRONMENTAL and Area B — SOCIAL and includes disclosure of climate change related issues which have or may impact our Group.

This report, which has been reviewed and approved by the board of the Company (the "**Board**"), both reviews and reports the core business operations and activities of the Group and follows the principles of materiality, quantification, balance and consistency to disclose relevant statistics and information.

(IV) Reporting Period

This report is for the period from 1 January 2019 to 31 December 2019 (the "**Reporting Period**").

(V) Corporate Goals and Visions

The Group's vision is to be a leading operator of music entertainment and restaurant establishments in the Greater China region. We are committed to undertaking this business with a reasonable return on investments to our shareholders, whilst being a socially and environmentally responsible company and providing a safe, healthy and pleasant working environment to our employees.

(VI) ESG Management

Our ESG strategies, management policy and approach are based on compliance with relevant legal and regulatory requirements, the principle of sustainability and opinions from our key stakeholders. The Group's visions and goals, and the ESG management policy and approach can be summarized in the following statements.

1. We strive to operate our business with the objectives to: lessen the impact on the environment; provide a safe and pleasant working environment for our employees and customers; comply with legal and regulatory requirements; adhere to high ethical standards, and contribute back to the communities in which we operate.

2. The Board of the Group determines and approves the ESG strategies, policies and guidelines, and is ultimately responsible for the Group's ESG reporting. The Chief Executive Officer has the overall responsibilities to implement the Board's approved targets, strategic direction and policies on the Group's ESG activities. In managing the priorities, we take into account of the opinions and views of its stakeholders. The Group has assigned the board members and senior management to constantly review and to communicate with its stakeholders including but not limited to its employees, clients, investors, suppliers and business partners, to gain insights on ESG material aspects in the Reporting Period.

3. The Group identified the following material aspects and have managed them strictly in accordance with the Group's policies and guidelines and in compliance with the relevant legal and regulatory standards:

    - Environmental safety and pollution (noise and light) during our operation and events;
    - Working conditions and environment on employees' health and safety;
    - Employee development and growth;
    - Quality of products and services;
    - Public safety and security;
    - Privacy information protection; and
    - Anti-corruption.

4. Together with the board and the CEO, the relevant departments are responsible for exploring and developing KPIs and targets where appropriate and necessary in accordance with the Group's policies and goals.

5. The material Environmental and Social areas, aspects and related KPIs chosen since our first ESG report in 2016, have continued to be monitored and managed with the keen attention of management, which in our opinion, further identifies and clarifies relevant issues for stakeholders.

III. STAKEHOLDERS COMMUNICATION AND MATERIALITY

Stakeholders provide the Group with invaluable insights into management and sustainability issues and we maintain regular contact with the internal and external stakeholders to guague their views and opinions regarding the Group's operations and performance. After collecting their views and opinions, the CEO will carry out materiality assessments internally with the related managers and externally with related stakeholders through various means:

Stakeholder	ESG Expectations	Our ESG Engagement
Customers	• Provide products and services in a clean and safe environment • Follow consumer laws	• Customer surveys • Website • Corporate reporting including ESG
Employees	• Provide a safe, healthy and meaningful working environment and career opportunities • Comply with all relevant employee laws and regulations	• Internal employee policies • Continual training • Regular staff meetings
Suppliers	• Conduct business fairly and ethically • Honest and open engagement with corporate procedures in place	• Regular supplier engagement • Corporate reporting including ESG report
Shareholders	• Information about ESG and climate change and non-financial risks	• Corporate reporting including annual, interim, quarterly and ESG reports • Annual general meeting • Investor relations programs including website • Continual disclosure to the HKEX and website
Community	• Sustainable and environmentally friendly business practices • Compliance with laws and regulations	• ESG reporting • Government and community engagement
Government & Regulators	• Compliance with laws and regulations • Payment of taxes	• Continual reporting and disclosure

A. ENVIRONMENTAL AREAS

1.1 Overview

We know that we have a key social responsibility to minimise our impact on the environment and with sustainability being one of the key focuses of the Group.

As a responsible corporation, the Group abides by all the local environmental laws and regulations and is committed to environmental protection, pollution prevention and minimization. The Group has implemented company-wide policies and taken measures which aim to ensure our operations and activities strike a balance between maximising returns to our shareholders, reducing our effect on the environment and being sustainable and resources usage efficient.

Given the special nature of our business, our activities do not generate materially hazardous emissions and wastes except for some gas emissions from gas used for cooking. However, our nightclub operations and music events will occasionally cause noise and light pollution and inconvenience during the operation of our events to the participants and neighboring communities and due to consumption of alcohol, require security to ensure customer safety and cohesion.

Purpose

To establish and maintain policies and procedures to identify, evaluate and determine the significance of environmental aspects and impacts on the company and by the company, and ensuring compliance with all relevant national and local environmental laws and regulations.

Procedure

(i) The CEO working with relevant operational management teams shall identify and evaluate the environmental aspects all operational activities that are most likely to give rise to any significant environmental impact.

(ii) At least once every year, the CEO will review the environmental aspects with the relevant operational management team. They shall also update regularly based on new knowledge obtained from daily operations and incidents (if any), new laws and regulations and organisational work activities and processes.

(iii) When identifying the environmental aspects, all activities likely to cause environmental impact or improve general sustainability are considered including but not limited to the following:

- Climate change and greenhouse gas emissions;
- Air emissions;
- Noise and light emissions;
- Water discharge;
- Waste disposal;
- Sustainability and the efficient use of raw materials, energy, water and other natural resources;
- Other local environmental issues; and
- National and local laws and regulations.

1.2 Environmental Aspects

The Group advocates the importance of sustainable development in relation to our ongoing business operations and activities. We have employed various measures to ensure full compliance with all relevant rules and regulations regarding emissions and effluent water and solid waste discharge and to ensure minimal impact to the environment. All of our employees are made aware of their respective roles and responsibilities in conserving energy and natural resources and reducing pollution and improving sustainability.

During the Reporting Period, as was the case in the previous 2 years, the Group was not subject to any confirmed cases for breaching environmental legislation in relation to emissions and waste discharge or other environmental issues that could have an adverse impact on the local environment.

A1: Emissions and Wastes

(i) Noise Emission

The operation of Club Cubic and music related events naturally generates constant music noise emission especially in the evening period. Club Cubic was purposefully designed so that that it's almost sound proof to the outside. For our music events, we ensure the installation of relevant noise pollution materials and structures to minimize noise pollution at the relevant event locations. Club Cubic, our restaurants and our music-related events, are all located in commercial and not in residential areas, which assists to minimize disturbance to the general public. We at all times comply with all relevant noise pollution and control laws, ordinances, rules and regulations of Hong Kong and Macau in the structural construction and operation of our sites in order to ensure noise emission is under strict control. The Group, same as the previous 2 years, did not receive any complaints related to noise emission during the Reporting Period, which is consistent with our performance in previous years.

(ii) Light Emission

Club Cubic and music related events also generate constant light emission especially in the evening period. However, since all our operations and activities are conducted inside the club and event locations, the light emissions should not and do not cause any disturbance to the public. The Group has complied with all the relevant laws, ordinances, rules and regulations of Hong Kong and Macau in our structural construction and operation to ensure all the lighting systems are properly installed to minimise light emission. The Group, same as the previous 2 years, did not receive any complaints related to light emissions during the Reporting Period, which is consistent with our performance in previous years.

(iii) Air Emission

(a) Non-Hazardous Air Emissions

The operations and activities of the Group generate minimal hazardous greenhouse gas ("**GHG**") emissions, and the only non-hazardous gas emission of carbon dioxide ("**CO_2**") is generated directly from the use of gas in cooking at our restaurants, and indirectly from the use of electricity across all our operations.

For 2019, the Group's operations generated a total of 13,003.72 tonnes GHG-CO_2 (2018: 10,371.30) , which comprised 3,156.11 tonnes generated indirectly from electricity used (2018: 2,592.21), and 9,847.61 tonnes directly from restaurants cooking gas used and car fuel used (2018: 7,779.07). The overall increase amounted to 2,632.42 tonnes or 25.38% over 2018, and in term of intensity of GHG-CO_2 generation per million HKD of revenue, was a 18.68% increase to 66.26 tonnes from 55.83 tonnes. The reasons were mainly due to an overall 5.64% increase in turnover and the number of restaurants using electricity and gas for cooking increasing from 2 to 3.

We are formulating a Climate Change Strategy that will continue to improve our energy saving practices including strictly controlling the electricity and gas consumption and avoiding unnecessary resource wastage in our club and restaurant operations and their cooking facilities, and by investing in new equipment and processes which improve energy efficiency and thus reduce indirect and direct GHG emissions. We target to lower the overall GHG emissions by 3%–5% to save costs and to reduce our impact on global warming for the coming year.

(b) *Hazardous Air Emissions*

The Group owns and operates two vehicles to provide transport to senior management and VIP customers in Hong Kong and Macau. Gas is also used for cooking in our restaurant establishments. During the Reporting Period, a total of 721.34 kg (2018: 579.37) of nitrous oxide ("**NO_x**"), 3.71 kg (2018: 3.14) of sulphur oxide ("**SO_x**"), and 0.7 kg (2018: 1.48) Particulate Matter ("**PM**") were generated, which could be broken-down into generation directly from gas used for cooking and fuel used for cars, as below:

Source	2019 (kg)	2018 (kg)
Gas used for cooking:		
NO_x	**711.8**	559.29
SO_x	**3.54**	2.78
Fuel used for cars:		
NO_x	**9.53**	20.18
SO_x	**0.17**	0.36
PM	**0.70**	0.36
Total NO_x	**721.33**	579.37
Total SO_x	**3.71**	3.14
Total PM	**0.7**	1.48

As shown above, in 2019, NO_x and SO_x generated directly from gas used for cooking increased by 152.51 kg or 27.26% over 2018, and 51.35% or 0.76 kg over 2018 respectively. This was primarily due to an increase in turnover and an increase of operating restaurants from 2 to 3.

For NO_x and SO_x generated directly from fuel used by cars, the Group in 2019 achieved a reduction of 10.65 kg or 52.7%, and 0.19 kg or 52.7% over 2018 respectively. At the same time, the PM in 2019 also decreased by 0.78 kg or 52.7% over 2018. The reason was mainly due to a reduction of the Group's vehicle fleet by one in 2019.

Although the total emissions of hazardous pollutants were not significant, the Group is considering further emission reduction plans which will include reducing the mileage running of the vehicles and possibly by replacing the two existing fossil fuel-based vehicles with electric ones in future, and also targeting efficiencies in gas usage in our restaurants by 5%.

(c) *Hazardous and Non-Hazardous Wastes emission*

The major hazardous wastes were light bulbs, printer toner cartridges, batteries and obsolete computer and small machines during the Reporting Period. All these hazardous wastes were collected by qualified collectors for further handling.

On non-hazardous wastes, due to the nature of our business, certain sewage and garbage, mainly non-hazardous emissions from solid wastes are produced in our club, restaurants and the venues where we hold our events. The sewage and garbage is collected daily in our establishments or immediately after an event is held to ensure and maintain hygienic conditions of the establishment. A major non-hazardous waste of our restaurant division is cooking oil. We have implemented grease traps to prevent the seepage of oil into the waste water system and we are reducing our environmental footprint further by providing our used cooking oil for recycling.

We proactively separate our waste where possible into recyclable and non-recyclable materials. While in our offices, only daily living waste from staff and recyclable waste (including paper, cards, packaging materials for goods sold and purchased) from daily operation, and the amount was not substantial. All of them are non-hazardous and were collected and discharged separately.

During the Reporting Period, in continuance with our record in the previous 2 years, the Group had not received any complaints or warning notices from relevant government authorities regarding our wastes discharge and disposal.

Mitigation Measures and Reduction Initiatives

Given the nature of our business activities, the Group did produce hazardous and non-hazardous emissions. However, as a responsible corporation, we are conscious of the effects our operations may have on the environment at all times and constantly strive to maximise energy efficiency and minimise waste. We fully comply with the Environmental Law No.2/91/M especially on section 1 of article 8, everyone is entitled to air quality suiting basic health and well-being, whether in public places, residential areas, workplaces and others, and section 3 of article 8, any installation, machine or means of transportation which activity may affect the air quality must be equipped with a device or other mean that can ensure compliance with legal emission standards. Furthermore, we have integrated eco-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 have taken the following special measures to reduce the emission of greenhouse gas and hazardous air pollutants, discharges into water and land, and generation of hazardous and non-hazardous waste, as well as to save energy in our daily operations:

- Encourage the establishment of a waste-classification system and the practice of recycling used papers and double-sided printing in workplace;
- Reduce unnecessary business trips and promote the use of information technology such as video conference;

- Encourage our staff to take public transportation and minimize the use of private vehicles and taxi;

- Adjust the temperature of our offices appropriately 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;

- Utilize temperate and lighting controls and efficient energy bulbs where possible in our club and restaurant establishments so as to reduce energy inefficiencies;

- Usage of grease traps to prevent cooking oil seeping into the waste water system;

- Utilisation of more energy efficient cooking equipment and processes where possible;

- Utilize recycled packaging and products in our restaurant operations; and

- Encourage water-saving habits of our staff.

When organizing our events, we take 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 including noise and light pollution. In the event that we have to undertake minor alterations to the natural environment due to event requirements, we will conduct environmental rehabilitation as soon as possible.

As a result and in keeping with our record in previous years, the Group did not have any violation related to hazardous or non-hazardous air emissions and wastes discharges, fines or warning notices from the relevant environmental agencies in Hong Kong and Macau in 2019. Not only do we target, but are determined to, take all required measures to continue to achieve and improve on our results in coming years, but also are committed to doing our part to combat global warming and reduce the generation of GHG emissions and pollutants.

A2: Use of Resources

The Group mainly uses electricity, fresh water, paper for napkins and takeaway packaging and printing for our activities in the club, offices, restaurants and the music events. We also use gas and cooking oil in our restaurant activities and consume a small amount of gasoline fuel for our small transport fleet.

Although the Group's activities and operations do not generate much environmental hazards, we are committed to act environmentally responsibly and aim at minimizing the impact on the environment and doing our part to help combat climate change. We promote smart usage to reduce consumption of electricity and gas, fresh water, and paper through the introduction of various measures as previously disclosed.

(i) Electricity & Fuel Consumption

Electricity is supplied to our operations in Macau and Hong Kong from the local electricity grid. We are committed to reducing energy consumption both from a cost efficiency standpoint and also to combat climate change and greenhouse gas emissions. The Group regularly monitors its electricity consumption across all parts of its operations from Club Cubic and our head office to our restaurant facilities. For the Reporting Period, the Group consumed an aggregate of 1,318,564 kWh (2018: 1,215,929) of electricity of which 822,519 kWh (2018: 833,585) was for Club Cubic operations, 476,769 kWh (2018: 361,628) was for our restaurant operations and 19,276 kWh (2018: 20,716) was for the head office. While this was an aggregate increase of 102,365 kWh or 8.4% more than 2018, this was fully due to the restaurant operations and mostly due to the inclusion of the new SIXA restaurant operations. For the coming year, the Group targets a total of 1,250,000 kWh consumption or a reduction of 3%–5% through improvement in energy efficiency management measures across all operations.

Gas is supplied to our restaurant operations from the local gas networks in Hong Kong. For the Reporting Period, we consumed a total of 3,849,280 cubic metres of gas used for cooking in our restaurant operations. This is a 27.3% increase in our gas usage from 2018 of 3,024,510 cubic metres and is mostly due to the commencement of our new SIXA operations combined with increase business turnover at our existing establishments. We target to maintain our gas usage in the future below 4,000,000 cubic metres per annum and to continually look at ways to improve gas usage efficiencies through more efficient cooking processes and equipment.

We also operate two vehicles in Hong Kong and Macau for use by management/employees and VIP customers. In 2019, these two vehicles travelled a total of 127,582 km and utilised approximately 11,598 litres of fuel. This is a 52.5% reduction on 2018 from 268,796 km or approximately 24,436 litres of petrol and it mostly due the Group's decision to cut the car fleet from three cars to two which had the combined effect of being more cost efficient for the Group and contributing to the Group's strategy to positively contribute to climate change and reducing global warming.

The Group recognises that investing in energy efficiency initiatives helps us to minimise our environmental impact while also reducing costs. To save energy which also saves costs, we have installed energy saving LED lights and control metres. We have also promulgated rules and encouraged staff and workers to use resources efficiently and environmentally friendly including:

- Lights and equipment must be turned off if not in use;
- Maintaining work environments at pre-determined and energy efficient temperatures;
- Installing more energy efficient cooking burners in our restaurants; and
- Encouraging the use of natural ventilation instead of air-conditioning whenever the conditions allow.

(ii) Fresh Water Consumption and Sourcing

Water is supplied from the city central water systems in Hong Kong and Macau and there are no problems with water supply. Prior to the commencement of restaurant operations, the Group did not consume material amounts of water in its operations and on a like-for like basis, Club Cubic continued to successfully reduce its consumption of water with a 29.5% reduction in water usage to 1,554 cubic metres (2018: 2,204). Overall, as one more restaurant became operational during the Reporting Period and our Group consumed a total of 22,637 cubic metres (2018: 16,385) of water, 38.15% more than 2018.

At all times, we request the staff and workers to use fresh water smartly and be responsible and we monitor water usage patterns constantly via the use of smart metres. We will continue to monitor this KPI closely and we target to reduce our water consumption overall by 3%–5% in the next operating year.

(iii) Paper and Packaging Materials Consumption

Given its business nature, the Group does not use much paper and packaging materials. Paper is used only for club events and promotional materials, visitors paper napkins and take-away packs, and for printing and writing purposes in the offices. During the Reporting Period, despite the addition of one more restaurant in operation, we used an aggregate of 257,229 pieces of paper, a 2.4% reduction from a total of 263,584 pieces used in 2018. This is further evidence of the success of the Group’s continuing measures to reduce paper usage at source including using papers from sustainable sources, encouraging recycling of paper, replacing paper records by electronic records, and reducing the use of paper by writing on whiteboards during presentations and meetings. We will continue to monitor our usage and look at ways to introduce more sustainable and environmentally friending materials where possible and we target a further 3% reduction in paper usage in the next year.

A3: Environment and Natural Resources

As discussed above and in our last ESG report, the Group's activities and operation do not utilise many natural resources nor generate many environmental hazards. Fresh water, electricity, cooking gas and paper-based packaging materials were the only key elements which were considered to have an impact on the environment and with our restaurant operations. We are even more acutely aware of this and have instigated strong operational procedures to ensure this. We have not polluted any air, water and land, and have complied with all the environmental laws and regulations of the regions which we have operations. As a responsible corporation, the Group is committed to conserving resources in order to reduce its impact on the environment as well as saving operation costs. We continue to actively promote energy efficiency, conservation and environmental awareness to our employees and stakeholders. As set out in our environmental policies, staff must pay attention to the use of air conditioning and electricity, and implement practices such as turning off lights, air conditioning and computers when not in use. We encourage the regular maintenance and prolonged use of our computers, printers, fax machines, photocopiers, POS machines and other common office and retail equipment to reduce the frequency of replacement. The Group has also implemented green purchasing practices and best practice technologies to conserve natural resources where applicable and we discontinued the use of one transport vehicle as means to reduce our carbon footprint. We will continue to cooperate with the local government agencies and support environmental organizations. Overall, same as in the previous 2 years, we did not receive any complaints from the public or government or regulatory bodies and target to continue to explore new ways to conserve resources and contribute to sustainability and reduce climate change.

A4: Climate Change

The Group is aware that there are significant and well known risks associated with climate change and global warning and understands that stakeholders expect us to be managing and mitigating climate change risks in line with local and global commitments and recommendations. While we operate in industries that are not directly affected by the physical effects of climate change, we recognise that the impacts of climate change are varied and long-ranging as we move to a low carbon economy and changes in society, customers and markets and regulatory responses could prevent us from meeting our strategic objectives and could result in adverse operational, compliance and financial impacts. Thus, climate change risks are considered by our Board to be an emerging material risk and oversight is given to the senior management who is developing an overarching Climate Change Strategy to reduce greenhouse gas emissions and assist with the movement to a lower carbon economy with policies and procedures to manage such potential risks including:

- Measuring and monitoring greenhouse gas emissions;
- Consideration of potential disruption to our operations due to extreme weather events and changing weather patterns;
- Consideration of changing customer behaviours and requirements as demand moves towards more carbon neutral and organic based food and beverages;

- Changes in cost and availability of raw materials (organic produce) and utilities such as renewable electricity, water and gas and relevant costs of securing and maintaining sufficient supply;

- Changes to government policy, law and regulation (including pricing carbon, renewable electricity pricing, sustainable waste including food scrap disposal etc.), which could result in increased operational costs and potential for litigation; and

- Failure to meet expectations of stakeholders.

Climate change is mainly caused by the release of CO_2 into the atmosphere, which is directly and indirectly the result of the use of fossil fuels for electricity generation and fuels for gas cooking and transportation. As the world transitions to a lower-carbon sustainable economy there are inevitable areas that our Group can contribute to this. After discussions with our stakeholders we have identified energy and water, and logistics as immediate areas that we can tackle to both combat climate change and reduce potential costs in the future.

Energy

During the Reporting Period, we produced material direct greenhouse gas emissions through our use of gas for cooking in our restaurants, and indirect greenhouse gas emissions were also generated through the use of electricity from non-renewable sources and consumption of gas and water. As outlined previously, we have implemented extensive policies and procedures to improve the efficient use of electricity, gas and water across our organisation and we will continue to invest in more energy efficient processes and equipment in the near future.

Water

The Group has taken measures to encourage employees to more efficiently use water in order to reduce its consumption especially in our restaurant operations.

Logistics

While we have outsourced out logistics services, however, in line with our Climate Change Strategy, the carbon footprint and sustainability of suppliers is an important consideration and we are actively seeking logistics partners that utilize electric vehicles and sort to minimize their own carbon footprint where possible.

For the Reporting Period, the Group's business operations and activities, except for the above three aspects, did not lead to any events or issues that might impact the climate or result in a change in the climate significantly. The reduction of the use of one transportation vehicle by the Group is part of the Group's Climate Change Strategy and we have already taken measures to lower direct and indirect CO_2 emissions and fresh water consumption for the coming year.

B. SOCIAL AREAS

1.1 Overview

The Group is committed to conducting business in an honest, accountable and ethical way and strives to build mutually beneficial relationships with our stakeholders, including our employees, customers, suppliers, communities, as well as the public and governing authorities. On formulation of ESG strategies and policies, we incorporate our long term corporate development goals with considerations on the stakeholders and society with a belief that we can make a difference to the world at large and the communities in which we operate.

1.2 Employment and Labour Practices Aspects

B1: Employment

The Group recognizes its success and depends highly on the skills, passion and commitment of its employees. We consider that our employees and their intrinsic talent are important resources and assets and we ensure employment and labour practices are implemented according to labour laws and the Employment Ordinance in Hong Kong and Macau. We are committed to an inclusive culture, providing equal employment opportunities for all without discrimination in hiring, promotion, dismissal, remuneration, benefits, training and development and treating all people with dignity and respect.

The Human Resources Department is responsible for the employment and the relevant policies, which are clearly laid out in our Employee Handbook, including but not limited to, appointment, termination, working hours, rest days, statutory holidays, remunerations, various compensations, dismissals, health, general safety and other benefits and welfares.

Our recruitment and selection process are 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. We specify the requirements of the vacancies and will advertise as well as headhunt through employment agencies. The selection process will be standard, and positions will be decided after background checks, tests and interviews by our human resources manager as well as the related departmental head. Senior managers will be decided by the CEO.

(i) Employment Mix

At 31 December 2019, including the new restaurant operations the Group's total head count increased by 13.9% to 270 (2018: 237) employees of which 243 or 90% are on full-time and 27 or 10% are on part-time basis. Our head office accounted for 20 (2018: 19) people or 7.4%, 160 (2018: 164) or 59.3% were at Club Cubic and 90 (2018: 54) or 33.3% were in our restaurant operations. A total of 42 (2018: 42) or 15.6% were managerial grade and all the remaining 228 employees or 84.4% were operational grade. In terms of diversity, 163 (2018: 144) or 60.4% were male and 107 (2018: 93) or 39% were female. Overall, the ratio of female to male employees slightly increased from 39.2% to 39.6%. In terms of age, 107 or 39.6% were under 30, 94 or 34.8% were 31–40 years of age, 45 or 16.7% were 41–50 years of age, 18 or 6.7 % were 51–60 years of age and 6 or 2.2% were over 60 years of age.

During the Reporting Period, there was an increase of 1 employee in our head office, no additions to employees at Club Cubic and we increased our restaurant operations staff to 90, up from 54 in 2018, mostly due to the additional staff required for our new SIXA restaurant.

(ii) Employee Compensation and Benefits — Policies and Compliance with Relevant Laws

As mentioned before, one of the major materials ESG aspects raised by the Group's employees was salary and compensation packages. The Group addresses salary and compensation packages in a transparent manner by disclosing its salary benchmarking exercises to employees. We provide and maintains statutory benefits to all qualified staff in Hong Kong and Macau including but not limited to coverage by the Mandatory Provident Fund and Social Security Fund in Hong Kong and Macau respectively, medical insurance, work injury insurance and compensation and statutory holidays.

We implement our staff structure on the philosophy of "making the best use of ability" and offer reasonable yet competitive compensation packages. All employees are required to sign a contract with the Group, which contains terms and conditions according to the local labour laws and employment ordinances. The Group has developed clear 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. We have created 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. Given such a policy of equal opportunity and treatment and anti-discrimination on the grounds of sex, origin, religion and race, our employees from different countries, cultures and religions worked together amicably and pleasantly without any record of complaints or disputes.

Remuneration packages are linked to individual performance, the Group's business performance, and taking into consideration of industry practices and market conditions and will be reviewed on an annual basis. Senior management staff and directors' remuneration is determined with reference to his/her duties and responsibilities with the Group, the Group's standards for emoluments and market conditions. Share options are also granted to eligible employees based on individual performance as well as the Group's performance.

To build a harmonious employees' relationship, the Group's senior management regularly organises meetings with the employees to listen to their concerns and thereafter to take appropriate actions, and also arranges social and sport events for employee participation.

During the Reporting Period, and as per our track record in previous years, the Group was not aware of any incidents of non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. We are confident that the Group will achieve the same result for the coming year.

B2: Health and Safety

The Group continued its commitment to provide a safe, healthy and pleasant working environment to the employees. We conduct all our business in full compliance with relevant workplace health and safety laws and regulations including the Occupational and Health Ordinances of Hong Kong and Macau respectively. We have equipped the offices and our hospitality establishments with adequate equipment and facilities to ensure safety and convenience to employees. All permanent staff have been covered with social, medical and accidental insurance as required by laws. All employees are also requested to strictly observe the health and safety policies and to follow safety rules at work and to place safety as their priority during work at all times. The 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. The Group has also provided the required insurance for all employees in accordance with the statutory requirements of their employment locations.

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 operational and kitchen 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.

Through the continued diligent efforts in training and monitoring of health and safety in our workplaces, the Group has maintained a strong safety record in 2019, same as the previous 2 years, with no lost time injuries from no fatalities or occupational health and safety hazard cases. We continue to target to achieve a zero injury and causality result for the coming year.

B3: Development and Training

As a fast-developing organisation, we are actuely aware of the value and contribution of its employees and is willing to invest and to provide our employees with numerous career development and job-specific training courses for them to enhance their capabilities. Employees are encouraged to engage in self-development by taking external training programs and seminars and we arrange senior staff to provide directional advice and guidance and short-term training to junior staff. We implement a system that links our employees' remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity and eagerness of advancement through continuous learning.

The human resources department is responsible for employee training. The Group has introductory and continuous training programmes for our employees to ensure the consistency of our high-quality customer services across all of our establishments, 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.

In 2019, 120 of our employees, most from the operational level, were sponsored to attend training courses which was a total of 11 more than in 2018.

B4: Labor Standards

The Group adopts the legal requirements and standards applicable to our business operations to be our minimum labor standard on labor protection and welfare. The Group is committed to ensuring its full compliance and all management and supervisory levels are made aware of this.

In line with our continuing record of previous years, in 2019, there were no labour strikes within the Group and we did not experience any material labour disputes nor any material insurance claims related to employees' injuries. We firmly believe that we have maintained a good working relationship with our employees. Equal opportunities have been given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees have not been discriminated against or deprived of opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws.

The Group, same as the previous records, 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 2019.

1.3 Operation Practices Aspects

B5: Supply Chain Management

Supply chain management in the ESG Guide mainly refers to management of sourcing and procurement. The Group mainly procures food and beverage products, and our suppliers mainly include fresh food and beverage suppliers as well as for tobacco.

The Group has established a material and supplier management system, covering the process and procedure for procurement. Based on the requirements and plans of the respective departments and categories of purchases, the Group usually places orders through price competitiveness and shortlisting, and chooses 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. We maintain a list of suppliers who have track records in dealing with us or in the market. Regular assessments on the suppliers including requests to provide basic certifications, licenses and product catalogues will be conducted to ensure that the suppliers are not only committed to the cost and quality of the products supplied, but also have not violated any laws and practices.

During the Reporting Period, same as the previous 2 years, we did not experience any significant problems with the quality of our fresh food or beverage products provided by our suppliers, any material limitations in the supply nor any shortage of any products. We believe that our supply chain management and procedures ensure the safety and quality of our supply chain.

During the Reporting Period, we had a total of 141 suppliers, an increase of 440% from the 124 suppliers we had in 2018. The main reason for this large increase was due to the commencement of operations of the new SIXA restaurant. All suppliers were local, which reaffirmed our strategy of supporting the local economy and was also in line with our local and fresh food supply strategy for our restaurants.

B6: Product Responsibilities

(i) Safety, Fire and Hygiene

One major condition imposed by applicable laws and regulations in respect of our operations includes compliance of relevant safety, hygiene and fire requirements. Our operation managers across all lines of business are responsible to ensure compliance of these requirements by conducting checks and inspections of the restaurants and 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. We must also maintain close monitoring of club entrant capacity requirements.

Fire and evacuation drills are conducted annually. Our Club Cubic and restaurant premises as well as the locations for our music events continued with the same previous records that we passed all the safety inspection checks by the Fire Departments of Macau and Hong Kong.

(ii) Security

As the Group offers our services in open places with public access, security is a major issue to us. We have therefore engaged independent security companies to provide a security staff, working under the supervision of our operation managers to ensure safety. We have established safety and anti-crime manual and implemented strictly by the security team. For our club operations, we control headcounts and implement ID checking procedures at the entrance of our premises to ensure the number of guests inside the premises shall not exceed the relevant regulatory limit(s) and that all customers are of legal age to consume alcohol and enter clubbing venues. We have established bag checking procedures at the entrance such that the entrance security officers shall check the bags of all guests to ensure that there are no illegal drug or other illegal or dangerous items brought into the club premises. Security staff inside the club premises maintain order inside the club, and attend any scene where fights or any illegal activities such as drug use, theft, harassment and promptly stop such activities in order to ensure the safety of our staff and customers. In addition, security staff 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 training are also provided to our staff regularly to ensure that they are well aware of our safety and security procedures. In order to spot potential illegal activities such as fights, drug abuse or theft at an early stage, over 100 CCTV cameras 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 behaviour, and that such blacklisted individuals are prohibited from entering into our club so as to ensure the safety of our staff and customers.

During the Reporting Period, same as the previous 2 years, neither Club Cubic nor our restaurant establishments had reported any serious cases resulting in serious life threatening events and accidents to our employees and customers.

(iii) *Privacy*

The Group's business operations generate a large volume of private, confidential and sensitive information of suppliers, co-operation partners including the operation status and financial positions, commercial terms of contracts, etc., background information of customers and customer credit card information. These types of information are extremely sensitive and important, can only be used for our own business purposes, not for other unrelated purposes, and by law, we have to cautiously safeguard and protect such information.

The Group fully understands its obligation, and has exercised caution in its daily operations to safeguard client information, protecting customer information from unauthorized access, usage and leakage through various technologies and procedures. Our employees' employment contracts specifically contain confidential provisions and employees are prohibited from accessing information without approval and/or leaking private and confidential information. All employees are trained to handle and use customer information with extreme caution, protect customer information, and comply with statutory requirements in privacy law. Legal action will be taken against any violation.

During the Reporting Period, same as the previous 2 years, there were no cases initiated against us, nor any complaints received, regarding any breach of relevant privacy laws, regulations and policies in any jurisdiction in which we operate. We will continue to target for zero cases to be initiated or complaints received in the future.

(iv) *Customer Service and Complaints*

The Group is committed to deliver high quality 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 or restaurant premises, if any staff receives a complaint from a customer, the staff shall immediately report this to their 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 online through emails, the incident will be reported to the 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 has been resolved and to maintain good customer relationships. Our management will review complaints records regularly, and accordingly arrange necessary training to our staff to consistently improve the operation of the club.

During the Reporting Period, same as the previous 2 years, we were 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.

(v) *Insurance and Third Party Liability*

The landlords of our club and restaurant venues have maintained the relevant third party liability insurance for fire or other accidents inside the premises. During all fit out and renovation works for our restaurants as well as expansion of our club premises and our music events, we have maintained relevant third party insurance. For events held outside our restaurant and club premises, we have also arranged appropriate insurance cover in respect of contractor's liability, public liability, accidental death and permanent disability. We maintain at all times relevant employees' compensation insurance for injuries or death in the course of employment.

(vi) Intellectual Property Right

Our Group's principal intellectual property rights include the trademark registered for the "Cubic" brand as well as "HEXA" and "SIXA" brands and we have taken appropriate steps to protect our intellectual property rights and registered the relevant trademark in various jurisdictions including Greater China, Taiwan Japan and Singapore. We primarily rely on trademark and intellectual property laws, and confidentiality agreements with our senior employees to protect our intellectual property.

We respect and observe intellectual property rights and pay for the music under licenses and copyrights to allow us to broadcast and to perform in our Club and the music events and the background music in our restaurants. 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 2019, same as the previous 2 years there were no legal proceedings against the Group with respect to our use of musical works in Club Cubic Macau.

For the events we hold in Hong Kong as well as for background music in our restaurant establishments, we also obtain the relevant permit and licences 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.

For the Reporting Period, the Group was not aware of any infringement of its or any other intellectual property rights which had or could have a material adverse effect on our business, and same as the previous 2 years, there were no legal proceedings against the Group with respect to our use of musical works in Club Cubic Macau nor our events or restaurant establishments in Hong Kong. We will continue to target zero infringement in coming years.

B7: Anti-corruption

As discussed in the introduction section, the prevention of bribery, extortion, fraud, and money laundering is a material aspect to all the stakeholders. The Group adopts a zero-tolerance approach to these crimes. Detailed policies and measures have been disclosed in and implemented since we started our ESG Reporting and KPIs in 2016. In our daily operations, the directors, management and staff must comply with related government laws and regulations on prevention of bribery, extortion, fraud and money laundering. With the implementation of clear policies and well-structured processes on purchases, sales, operation and finance, and the adoption of a high code of conduct especially in our senior management, all employees not only have responsibility to understand but also comply with the above regulations and any person, who contravenes the regulations, will be subject to disciplinary sanction. Same as the previous 2 years, there were no complaints of corruption against the Group or its staff in the Reporting Period, and we will continue to target and are confident to achieve a similar result in the future.

B8: Community Investment

The Group strives to fulfil its responsibilities as a corporate citizen and makes contributions to society, taking into consideration the needs and interests of the communities where we expand our operations. By recruiting staff from local communities, we assist both local employment and at the same time we have a local team who is familiar with the local environment which is important in the hospitality industry, thereby creating a win-win situation. We also try to build a beneficial corporate-community relationship by addressing the local community concerns, such as those related to environmental issues and cultural promotion and encouraging and supporting staff to engage in voluntary community activities. During the Reporting Period, we continued to focus on areas with higher local priority making small donations to local charities and the Group will continue to devote more resources towards community.

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 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company incorporated in Cayman Islands. The Company and its subsidiaries is principally engaged in the food and beverage and entertainment industry. Their principal activities are operation of clubs and restaurants, organising music-related featured events as well as granting loans to entities in the food and beverage and entertainment industry.

BUSINESS REVIEW

A review of the business of the Group as required under Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, is set out in the section of "Letter to the Shareholders" and"Management Discussion and Analysis" in this annual report. Those discussion forms part of this report of the Directors.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks.

Details of principal risks faced by the Group during the year ended 31 December 2019 are set out in"Principal risks and uncertainties"under "Management Discussion and Analysis" Section of this annual report. The details of financial risk management policies and practices of the Group are set out in notes to the consolidated financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

Key Performance Indicators

The key performance indicators are detailed in the Financial Review set out in the "Management Discussion and Analysis" section of this annual report, which constitutes a part of this report of the Directors.

Compliance with Laws and Regulations

To the best of the knowledge of the Board and the management, the Group complied with the relevant laws and regulations which constitutes material impact on the business and operation of the Company and its subsidiaries in all material respects during the year ended 31 December 2019.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes that employees are one of the significant assets of the Group. The Group aims to continue establishing a caring environment to employees and emphasis the personal development of its employees.

The Group maintains a good relationship with our customers and suppliers. The Group aims to continuously providing quality services and consumption experiences to our customers and establishing long-term cooperation relationships with our suppliers.

Environmental Policies

The Group is committed to building an environmentally-friendly corporate environment that pays close attention to conserving natural resources. The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials. For further details, please refer to the "Environmental, Social and Governance Report" section of this annual report.

SEGMENT INFORMATION

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the state of the affairs of the Company and the Group as at that date are set out in the consolidated financial statements of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements, is set out in the "Summary of Financial Information" section 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 notes to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in notes 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 notes to the consolidated financial statements, respectively.

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$53,619,000. 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)*
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

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, at each annual general meeting one third of the Directors for the time being, shall retire from office by rotation. Accordingly, 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.

With effect from 1 March 2020, Mr. Au Wai Pong Eric be entitled a monthly director's fee of HK$20,000. The monthly directors' fee of other directors remain unchanged.

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 notes to the consolidated financial statements. Directors' remuneration is mainly determined by their jobs duties and relevant market standard.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in notes 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. According to Article 191 of the Company's articles of association, the Directors shall be indemnified and secured harmless out of assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain.

EMPLOYEES AND REMUNERATION POLICY

The Group had a total of 494 employees as at 31 December 2019 (2018: 237 employees). Remuneration is determined with reference to market terms and the performance, qualifications and experience of the individual employee. 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. Other benefits include contributions to statutory mandatory provident fund schemes to its qualified Hong Kong employees and social security fund schemes operated and managed by the Macau Government to its qualified Macau employees.

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 2019, 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	1,234.44 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%

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. 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. On 20 August 2019, Mr. Yeung Bernard Sie Hong sold all his shares in Welmen to Mr. Choi Kuen Kwan (father of Mr. Choi Yiu Ying and Mr. Choi Siu Kit). 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. Choi Kuen Kwan and Mr. Yeung Chi Shing deemed 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 31 December 2019, 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 2019, 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%
Perfect Succeed (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Mr. Choi Kuen Kwan (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. Lau Sze Mun Charmaine (Note 8)	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. On 20 August 2019, Mr. Yeung Bernard Sie Hong sold all his shares in Welmen to Mr. Choi Kuen Kwan (father of Mr. Choi Yiu Ying and Mr. Choi Siu Kit). 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. Choi Kuen Kwan 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. 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 31 December 2019, 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 notes 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 2019.

INTEREST IN A COMPETING BUSINESS

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. 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.

Mr. Choi Siu Kit, our executive Director and also controlling shareholder of the Company, is engaged in certain restaurant and bar business in Hong Kong before the Listing (the "Retained HK Restaurant and Bar Business"). Set out below are the details of his interests in the Retained HK Restaurant and Bar Business during the twelve-month period ended 31 December 2019:

Name of entity	Nature of interests
Mighty Force Catering Group Limited (Note)	Approximately 50% of 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)	Approximately 7.5% of issued share capital was held by Mr. Choi Siu Kit's spouse
Eastern Full Limited (Note)	Approximately 7.5% of issued share capital was held by Mr. Choi Siu Kit's spouse

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

As Mr. Choi Siu Kit had engaged the Retained HK Restaurant before the Group's Listing, such business are excluded from the Group and is not covered by the Deed of Non-competition entered between the Controlling Shareholders and the Company.

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. Mr. Tse also engages in the business of food and beverage since 17 May 2019. Below are the details of his interests in companies involved in such business during the year end 31 December 2019:

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
J-Pot Limited	Director and interest in approximately 20% 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. With regard to his engagement in the business of food and beverage, it is a restaurant set up in Hong Kong which serves mainly hot-pot to customers. In addition, Mr. Tse expects that Macau will not be a material market for his event or performance organization business in the foreseeable future and the hot-pot restaurant is different from those restaurants operated by the Group. Hence, our Directors are of the view that the potential competition is relatively low and limited.

Saved as disclosed, during the twelve-month period ended 31 December 2019, 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. The Controlling Shareholders have provided information necessary for annual review by our Company's independent non-executive Directors and the enforcement of the Deed of Non-competition. The Controlling Shareholders have provided written confirmation to the Company declaring compliance with the Deed of Non-competition. Our independent non-executive directors have reviewed and concluded their compliance with the Deed of Non-competition signed between controlling shareholders and the Company.

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 (i.e. 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.

SHARE OPTIONS

On 2 October 2018, certain employees and consultants of the Group who are not director, chief executive or substantial shareholder of the Company were granted shares options to subscribe for 30,142,308 shares at an exercise price of HK$0.061 per share.

Pursuant to Rules 23.07 of the GEM Listing Rules, particulars and movements of shares options under the Share Option Scheme during the year ended 31 December 2019 are set out as follows:

					Number of share options			
Category/ Name of Grantee	Date of Grant	Exercise Date/Period	Exercise Price Per Share	Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Lapsed during the year ended 31 December 2019	Outstanding as at 31 December 2019
Employees and Consultants	2 October 2018	(Note 1)	HK$0.061	9,042,692	–	–	–	9,042,692
	2 October 2018	(Note 2)	HK$0.061	9,042,692	–	–	–	9,042,692
	2 October 2018	(Note 3)	HK$0.061	9,042,692	–	–	–	9,042,692
	2 October 2018	(Note 4)	HK$0.061	3,014,232	–	–	–	3,014,232
Total				30,142,308	–	–	–	30,142,308

Notes:

1. Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2018 to 1 October 2028.

2. Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2019 to 1 October 2028.

3. Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2020 to 1 October 2028.

4. Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2021 to 1 October 2028.

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 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2019.

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" section 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 10% of the total revenue of the Group. The purchases from the five largest suppliers of the Group accounted for 40.2% of the total purchase of the Group and the purchase from the largest supplier accounted for 31.8% 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 2019 are disclosed in notes to the consolidated financial statements. These related party transactions are also connected transactions which are exempted from the reporting, annual review, announcement, circular and shareholders approval under Chapter 20 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting date are set out in note 44 to the consolidated financial statement.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 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 Group.

The Group has not changed its external auditor in any of the preceding 3 years.

On behalf of the Board

Choi Yiu Ying
Chairman and Chief Executive Officer

Hong Kong, 8 May 2020

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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 71 to 151, which comprise the consolidated statements of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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.

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 food, beverage and other products

Refer to Note 6 to the consolidated financial statements and the accounting policies in Note 2 to the consolidated financial statements.

We identified revenue recognised from sales of food, 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 food, beverage and other products transactions. Our procedures in relation to these transactions included:

- Obtaining an understanding of the revenue recognition process regarding sales of food, 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; and
- 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.

Carrying amount of convertible promissory notes and derivative financial liabilities

Refer to Notes 31 and 33 to the consolidated financial statements.

As of 31 December 2019, the Group has convertible promissory notes of approximately HK$17,344,000 and derivative financial liabilities of approximately HK$45,000 relating to the conversion option of convertible promissory notes issued during the year. Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgment.

Our procedures in relation to management's valuation in relation to the convertible promissory notes included:

- Evaluation of the independent valuer' s competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the convertible promissory notes and using our valuation experts; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

We found the key assumptions were supported by the available evidence.

OTHER INFORMATION

The directors 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.

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

The directors 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.

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

- 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.

- 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 Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practising Certificate Number: P06901

Hong Kong, 8 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Revenue	6	**225,403**	206,868
Other income and gain	7	**5,157**	4,370
Fair value change of financial assets at fair value through profit or loss		**61**	–
Fair value change of derivative financial liabilities		**1,116**	–
Cost of inventories sold		**(53,900)**	(44,596)
Staff costs		**(77,449)**	(55,839)
Property rentals and related expenses		**(15,524)**	(26,285)
Advertising and marketing expenses		**(31,378)**	(27,440)
Other operating expenses		**(64,507)**	(46,670)
Depreciation and amortisation		**(25,748)**	(6,670)
Finance costs	8	**(5,375)**	(25)
(Loss)/profit before taxation	11	**(42,144)**	3,713
Taxation	10	**(627)**	(532)
(Loss)/profit for the year		**(42,771)**	3,181
Other comprehensive income/(loss):			
Exchange difference on translating of financial statements of overseas subsidiaries		**79**	(234)
Total comprehensive (loss)/income for the year		**(42,692)**	2,947
(Loss)/profit for the year attributable to:			
Owners of the Company		**(30,633)**	2,201
Non-controlling interests		**(12,138)**	980
		(42,771)	3,181
Other comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**127**	(234)
Non-controlling interests		**(48)**	–
		79	(234)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(30,506)**	1,967
Non-controlling interests		**(12,186)**	980
		(42,692)	2,947
(Loss)/earnings per share (in HK cents)			
— Basic	14	**(1.70)**	0.12
— Diluted	14	**(1.70)**	0.12

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Assets			
Non-current assets			
Plant and equipment	15	85,549	20,200
Intangible assets	16	722	836
Financial assets at fair value through profit or loss ("Financial assets at FVTPL")	17	6,061	–
Financial assets at fair value through other comprehensive income ("Financial assets at FVTOCI")	18	2,798	5,932
Right-of-use assets	19	110,906	–
Goodwill	26	9,152	–
Deposits	21	8,136	4,389
		223,324	31,357
Current assets			
Inventories	20	8,178	5,006
Account and other receivables	21	55,894	32,363
Loan receivables	22	5,400	8,612
Amounts due from non-controlling interests	23	4,528	–
Cash and cash equivalents	24	23,311	41,032
		97,311	87,013
Liabilities			
Current liabilities			
Account and other payables	27	58,523	30,042
Lease liabilities	19	23,011	–
Bank overdrafts	24	5,995	574
Derivative financial liabilities	31	45	–
Income tax payables		302	391
Bank loans	34	1,200	–
		89,076	31,007
Net current assets		8,235	56,006
Total assets less current liabilities		231,559	87,363

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Non-current liabilities			
Other payables	27	**33,822**	–
Deferred rentals	27	**–**	1,600
Bank loans	34	**9,900**	–
Lease liabilities	19	**105,386**	–
Convertible loans	32	**8,880**	–
Convertible promissory notes	33	**17,344**	–
Amounts due to non-controlling interests	28	**14,165**	4,112
Provision for reinstatement costs	29	**1,565**	715
Derivative financial liabilities	31	**21**	–
		191,083	6,427
Net assets		**40,476**	80,936
Equity			
Share capital	30	**18,000**	18,000
Reserves		**30,466**	62,191
Equity attributable to owners of the Company		**48,466**	80,191
Non-controlling interests		**(7,990)**	745
Total equity		**40,476**	80,936

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

The consolidated financial statements on pages 71 to 151 were approved and authorised for issue by the Board of Directors on 8 May 2020 and signed on its behalf by:

Choi Yiu Ying
Director

Choi Siu Kit
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								Attributable to non-controlling interests	Total
	Share capital HK$'000	Share premium HK$'000	Share-based compensation losses HK$'000	Legal reserve HK$'000 (Note)	Exchange reserve HK$'000	Accumulated losses HK$'000	Other reserve HK$'000	Sub-total HK$'000	HK$'000	HK$'000
As at 1 January 2018	18,000	66,235	–	12	82	(6,483)	–	77,846	(235)	77,611
Profit for the year	–	–	–	–	–	2,201	–	2,201	980	3,181
Other comprehensive loss for the year	–	–	–	–	(234)	–	–	(234)	–	(234)
Equity-settled share option arrangement	–	–	378	–	–	–	–	378	–	378
As at 31 December 2018 as originally presented	18,000	66,235	378	12	(152)	(4,282)	–	80,191	745	80,936
Changes in accounting policies (Note 2.1)	–	–	–	–	–	(1,689)	–	(1,689)	(1,013)	(2,702)
Restated balance as at 1 January 2019	18,000	66,235	378	12	(152)	(5,971)	–	78,502	(268)	78,234
Loss for the year	–	–	–	–	–	(30,633)	–	(30,633)	(12,138)	(42,771)
Other comprehensive income/(loss) for the year	–	–	–	–	127	–	–	127	(48)	79
Equity-settled share option arrangement	–	–	378	–	–	–	–	378	–	378
Acquisition of subsidiaries (Note 25)	–	–	–	–	–	–	–	–	3,329	3,329
Change in ownership interest in subsidiaries (Note 42)	–	–	–	–	–	–	92	92	1,135	1,227
As at 31 December 2019	**18,000**	**66,235**	**756**	**12**	**(25)**	**(36,604)**	**92**	**48,466**	**(7,990)**	**40,476**

Note: In accordance with the provisions of the Macau Commercial Code, the subsidiary of the Company in Macau is 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 capital of the subsidiary. This reserve is not distributable to its shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Operating activities		
(Loss)/profit before taxation	(42,144)	3,713
Adjustments for:		
Allowance for credit losses of account and other receivables	619	858
Reversal of allowance for credit losses of sponsorship receivables	(9)	–
(Reversal of)/allowance for credit losses of loan receivables	(214)	264
Depreciation of plant and equipment	11,036	6,556
Depreciation of right-of-use assets	14,598	–
Amortisation of intangible assets	114	114
Fair value change of financial assets at FVTPL	(61)	–
Fair value change of derivative financial liabilities	(1,116)	–
Finance costs	5,375	25
Equity-settled share option expense	378	378
Bank interest income	(46)	(16)
Operating cash flows before movements in working capital	(11,470)	11,892
Increase in inventories	(3,200)	(1,083)
Increase in account and other receivables	(22,064)	(8,002)
Decrease/(increase) in loan receivables	3,426	(6,876)
Increase in account and other payables	50,828	1,262
Cash generated from/(used in) operations	17,520	(2,807)
Income tax paid	(717)	(366)
Net cash generated from/(used in) operating activities	16,803	(3,173)
Investing activities		
Purchase of plant and equipment	(63,890)	(5,391)
Acquisition of subsidiaries (Note 25)	60	–
Purchase of financial assets at FVTPL	(6,000)	–
Purchase of financial assets at FVTOCI	(2,021)	–
Purchase of intangible assets	–	(130)
Interest received	46	16
Net cash inflow in respect of change in ownership interest of subsidiaries	1,227	–
Net cash used in investing activities	(70,578)	(5,505)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Financing activities		
Loans from non-controlling interests	**5,612**	–
Proceed from issuance of convertible promissory notes (Note 33)	**18,201**	–
Proceed from issuance of convertible loans (Note 32)	**9,080**	–
Proceeds from bank loans (Note 34)	**11,100**	–
Increase in bank overdrafts	**5,421**	574
Interest paid	**(217)**	(25)
Repayment of lease liabilities	**(9,531)**	–
Interest element of lease rentals paid (Note 41)	**(3,982)**	–
Net cash generated from financing activities	**35,684**	549
Net decrease in cash and cash equivalents	**(18,091)**	(8,129)
Cash and cash equivalents at the beginning of the year	**41,032**	49,167
Effect of foreign exchange rate	**370**	(6)
	23,311	41,032
Represented by:		
Cash and cash equivalents at the end of the year	**23,311**	41,032

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

1. GENERAL INFORMATION

Luk Hing Entertainment Group Holdings Limited ("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 2017, the Company's shares were listed on the 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 Company and its subsidiaries (collectively referred as the "Group") is principally engaged in the food and beverage and entertainment industry. The Group's principal activities are operation of clubs and restaurants, organising music-related featured events as well as granting loans to entities in the food and beverage and entertainment industry ("Money Lending Business").

Other than those subsidiaries established in the Macau whose functional currency is Macau Pataca ("MOP") and some subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and Hong Kong operating subsidiaries is Hong Kong dollars ("HK$").

The consolidated financial statements are presented in 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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Application of new and amendments to HKFRSs

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

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

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Application of new and amendments to HKFRSs *(Continued)*

HKFRS 16 *Lease*

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

Definition of a lease

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

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

As a lessee

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

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

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

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

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

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

(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of club premises, restaurant, staff quarters and warehouses in Hong Kong and the PRC was determined on a portfolio basis; and

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Application of new and amendments to HKFRSs *(Continued)*

HKFRS 16 *Lease* *(Continued)*

Definition of a lease (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied range from 0.82% to 4.25%.

	As at 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	35,490
Lease liabilities discounted at relevant incremental borrowing rates	32,703
Less: Recognition exemption — short-term leases	(7,740)
Lease liabilities as at 1 January 2019	24,963
Analysed as:	
— Current	7,264
— Non-current	17,699
Lease liabilities as at 1 January 2019	24,963

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

	Notes	As at 1 January 2019 HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	(a)	22,261
Less: Accrued lease liabilities	(b)	(1,964)
		20,297

Notes:

(a) The right-of-use assets in relation to leases previously classified as operating leases have been recognised at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application.

(b) These relate to deferred rentals for leases of properties in which the lessors provided rent-free period. The deferred rentals was recognised in "Account and other payables" under current liabilities and "Deferred rentals" under non-current liabilities of approximately HK$364,000 and HK$1,600,000 respectively as at 31 December 2018. The carrying amount of these lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Application of new and amendments to HKFRSs *(Continued)*

HKFRS 16 Lease *(Continued)*

Definition of a lease (Continued)

As a lessee (Continued)

The following table summarises the impact of transition to HKFRS 16 on accumulated losses at 1 January 2019:

	HK$'000
Accumulated losses as at 31 December 2018	(4,282)
Adjustments under HKFRS 16	(1,689)
Accumulated losses as at 1 January 2019 (restated)	(5,971)

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

	As at 31 December 2018 HK$'000	Recognition of leases HK$'000	**As at 1 January 2019 HK$'000**
Assets			
Right-of-use assets (Note)	–	20,297	**20,297**
Current Liabilities			
Account and other payables	30,042	(364)	**29,678**
Lease liabilities	–	7,264	**7,264**
Non-current Liabilities			
Deferred rentals	1,600	(1,600)	**–**
Lease liabilities	–	17,699	**17,699**
Equity			
Accumulated losses	(4,282)	(1,689)	**(5,971)**
Non-controlling interests	745	(1,013)	**(268)**

Note: The application of HKFRS 16 to leases previously classified as operating leases under HKAS 17 resulted in the recognition of right-of-use assets of approximately HK$20,297,000 and lease liabilities of approximately HK$24,963,000 at the initial adoption of HKFRS 16.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Application of new and amendments to HKFRSs *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The Group has already commenced an assessment of the impact of these New and Amendments to HKFRSs, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Directors of the Company, no significant impact on the financial performance and position of the Group is expected when they become effective except for HKFRS 3. Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

In addition to the above New and Amendments to HKFRSs, a revised *Conceptual Framework for Financial Reporting* was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework* in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of all other New and Amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies

Statement of compliance

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 except for financial assets at FVTPL and FVTOCI and derivative financial liabilities which are measured at fair values.

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 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 Group 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 Group 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 Group 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 Group's voting rights and potential voting rights.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

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.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 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 from contracts with customers

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue from sales of food, beverage and other products is recognised at the point in time when control of the products has transferred, being at the point the products are delivered to the customer and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

A receivable is recognised when the products are delivered and the customers accept the products, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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

Revenue from sponsorship income is recognised at the point in time when the promotion events have been held.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 2.1)

Lease is a contract contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2.1)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of club premises, restaurant, staff quarters and warehouses that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2.1) (Continued)

Right-of-use assets (Continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2.1) (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessee (prior to adoption of HKFRS 16 on 1 January 2019)

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 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; 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.

Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

Deferred tax (Continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities. For lease transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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 equipment

Plant and equipment 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 equipment 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 equipment 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 equipment are as follows:

Motor vehicles	5 years
Security surveillance-camera system	5–10 years
Furniture, fixtures and equipment	3–10 years
Tableware	3–5 years
Leasehold improvement	2–10 years

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

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.

Intangible assets

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. 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based compensation reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) 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 at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9 or initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gain" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gain" line item.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including account receivables, sponsorship receivables, other receivables, deposits, loan receivables and amounts due from non-controlling interests. The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 120 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial d difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liability and equity

Classification as debt or 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 instruments

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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including account and other payables, deferred rentals, amounts due to non-controlling interests, bank overdrafts, bank loans, lease liabilities, convertible loans, convertible promissory notes and provision for reinstatement costs, 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.

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 expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Convertible loans and promissory notes

Convertible loans and promissory notes that contain an equity component

Convertible loans and promissory notes that can be converted into ordinary shares at the option of the holder, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible loans and promissory notes are measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible loans and promissory notes as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the notes are converted or redeemed.

If the notes are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the capital reserve is released directly to retained profits.

Other convertible loans and promissory notes

Convertible loans and promissory notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible loans and promissory notes are measured at fair value and presented as part of derivative financial instruments (see accounting policies "Derivative financial instruments"). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. Transaction costs that relate to the issue of the convertible loan and promissory note are allocated to the host liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the host liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with the accounting policies "Derivative financial instruments". The host liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the host liability component is calculated using the effective interest method.

If the notes are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

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. If the reporting entity is itself such a plan, the sponsoring employees are also 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.

Close family members of an individual are those family members who may be expected to influence, or be influence 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

Provision for reinstatement costs

Provision for reinstatement costs represents the estimated cost for the renovation work of the Group's leased outlets agreed to be carried out upon the expiry of the relevant leases using a risk-free pre-tax interest rate. The provision has been determined by the directors based on their best estimates.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2.2, 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) Useful lives and residual values of plant and equipment

In determining the useful life and residual value of an item of plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvement in production, or from a change in market demand for the products or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in similar way. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold.

(b) Impairment of leasehold improvement

Leasehold improvement are stated at costs less depreciation and impairment, as appropriate. The directors review their impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable at the end of each reporting period. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In determining whether an asset is impaired, the Group have to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the value in use, i.e. the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(c) Impairment loss for non-financial assets

The Group assesses at the end of the reporting period whether non-financial assets suffered any impairment in accordance with accounting policy stated in Note 2.2. The non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The determination of recoverable amount requires an estimation of future cash flows and the selection of appropriate discount rates. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods, where applicable.

(d) Provision for reinstatement costs

Provision for reinstatement costs is estimated at the inception of leasing property with reinstatement clause and reassessed at the end of each reporting period with reference to the latest available quotation from independent contractors. Estimation based on current market information may vary over time and could differ from the actual reinstatement costs upon closures or relocation of existing premises occupied by the Group.

(e) Estimated impairment of account and other receivables and loan receivables

Provision of ECL for account and other receivables and loan receivables

The Group uses provision matrix to calculate ECL for the account and other receivables and loan receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, account and other receivables and loan receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's account and other receivables and loan receivables are disclosed in Notes 4(b), 21 and 22.

(f) 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 2019 and 2018, the carrying values of inventories were approximately HK$8,178,000 and HK$5,006,000 respectively.

(g) Determining the lease term

As explained in Note 3, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Financial assets		
At amortised cost		
— Account receivables	7,988	8,990
— Sponsorship receivables	3,630	1,357
— Other receivables	8,563	953
— Deposits	32,840	18,309
— Loan receivables	5,400	8,612
— Amounts due from non-controlling interests	4,528	–
— Cash and cash equivalents	23,311	41,032
Financial assets at FVTOCI	2,798	5,932
Financial assets at FVTPL	6,061	–
Financial liabilities		
At amortised cost		
— Account and other payables	92,345	29,678
— Deferred rentals	–	1,964
— Amounts due to non-controlling interests	14,165	4,112
— Bank overdrafts	5,995	574
— Bank loans	11,100	–
— Lease liabilities	128,397	–
— Convertible loans	8,880	–
— Convertible promissory notes	17,344	–
— Provision for reinstatement costs	1,565	715
Derivative financial liabilities	21	–

(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 credit risk, market risk (including currency risk and interest rate risk) and liquidity risk.

The Group's major financial instruments include financial assets at FVTPL and FVTOCI, account and other receivables, loan receivables, amounts due from non-controlling interests, cash and cash equivalents, account and other payables, deferred rentals, amounts due to non-controlling interests, bank overdrafts, bank loans, lease liabilities, convertible loans, convertible promissory notes and provision for reinstatement costs. 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.

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, account and other receivables, loan receivables, deposits and amounts due from non-controlling interests. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, ECL rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019 and 2018.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12m ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

As at 31 December 2019, account receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of food, beverage and other products sold and are transacted in cash or credit. The Group's account receivables arise from sales of food, beverage and other products to the customers. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired account receivable disclosed in the below. Management makes periodic assessment on the recoverability of the account and other receivables and loan receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Account receivables are due within 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

General approach (Continued)

The Group measures loss allowances for account and other receivables and loan receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Maximum exposure and year-ended staging as at 31 December 2019 and 2018

The table below shows credit quality and maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information is available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 2018.

	12m ECL Stage 1 HK$'000	Lifetime ECL Stage 3 HK$'000	Total HK$'000
As at 31 December 2019			
Account and other receivables			
— AAA to AA–	**–**	**–**	**–**
— A+ to BBB–	**4**	**–**	**4**
— BB to B	**422**	**–**	**422**
— CCC to C–	**–**	**1,042**	**1,042**
	426	**1,042**	**1,468**
Loan receivables			
— AAA to AA–	**–**	**–**	**–**
— A+ to BBB–	**–**	**–**	**–**
— BB to B	**50**	**–**	**50**
— CCC to C–	**–**	**–**	**–**
	50	**–**	**50**
As at 31 December 2018			
Account and other receivables			
— AAA to AA–	40	–	40
— A+ to BBB–	48	–	48
— BB to B	24	–	24
— CCC to C–	–	746	746
	112	746	858

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

Maximum exposure and year-ended staging as at 31 December 2019 and 2018 (Continued)

	12m ECL Stage 1 HK$'000	Lifetime ECL Stage 3 HK$'000	Total HK$'000
Loan receivables			
— AAA to AA–	–	–	–
— A+ to BBB–	–	–	–
— BB to B	264	–	264
— CCC to C–	–	–	–
	264	–	264

Amounts due from non-controlling interests
The Group regularly monitors the business performance of the non-controlling interests. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts due from non-controlling interests since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for amounts due from non-controlling interests were insignificant and thus no loss allowance was recognised.

Financial asset are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60-90 days past due.

Impairment losses on financial asset are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Market risk

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 be the need arise.

Interest rate risk

The Group is exposed to interest rate risk in relation to bank loans.

Sensitivity analysis

If interest rate on bank loans as at 31 December 2019 had been 10 basis point (0.1%) per annum higher/lower than the actual effective interest rate, the Group's loss for the year would have been approximately HK$11,000 (2018: nil) higher/lower as a result of increase/decreased in fair value of bank loans.

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

Interest rate risk (Continued)

As management considers the Group's exposure to the above fair value interest rate risk is not significant, no interest rate swaps or other hedging activities are undertaken by management during the year.

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	More than one year but less than two years	More than two years but less than five years	More than five years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2019							
Non-derivative financial liabilities							
Account and other payables	–	58,523	33,822	–	–	92,345	92,345
Lease liabilities	5.07	29,852	27,309	63,434	34,225	154,820	128,397
Bank loans	–	1,200	1,200	8,700	–	11,100	11,100
Bank overdrafts	5.3-5.4	5,995	–	–	–	5,995	5,995
Amounts due to non-controlling interests	–	–	–	14,165	–	14,165	14,165
Convertible loans	9.17	817	817	9,415	–	11,049	8,880
Convertible promissory notes	11.55	1,638	1,638	19,509	–	22,785	17,344
Provision for reinstatement costs	–	–	–	1,565	–	1,565	1,565
As at 31 December 2018							
Non-derivative financial liabilities							
Account and other payables	–	29,678	–	–	–	29,678	29,678
Deferred rentals	–	364	534	1,066	–	1,964	1,964
Bank overdrafts	5.3-5.4	574	–	–	–	574	574
Amounts due to non-controlling interests	–	–	–	4,112	–	4,112	4,112
Provision for reinstatement costs	–	–	–	715	–	715	715

4. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments

Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of its financial assets and liabilities.

The management of the Group considers that the carrying amounts of financial assets and liabilities at amortised cost in the consolidated financial statements approximate to their fair values.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group's financial assets at FVTPL, financial assets at FVTOCI and derivative financial liabilities (2018: financial assets at FVTOCI) are measured at fair value at the end of each reporting period.

The following table analysed the financial instruments which are measured at fair value at the end of the reporting period into the three-level hierarchy.

	Fair value as at 31 December			
	2019 HK$'000	2018 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Financial assets				
Financial assets at FVTOCI				
— unlisted equity investment	**2,021**	4,444	Level 3	Net asset value (Note)
— unlisted equity investment	**777**	777	Level 3	Market approach
— unlisted shares investment	**–**	711	Level 3	Net asset value
	2,798	5,932		
Financial assets at FVTPL	**6,061**	–	Level 2	Discounted cash flow. The key inputs is market interest rate
Financial liabilities				
Derivative financial liabilities	**66**	–	Level 3	Binominal pricing model

Note: The Group has determined that the net asset value represents fair value at the end of the reporting period.

There was no transfer between Level 1, 2 and 3 in both years.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The above table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value measurements of financial instruments *(Continued)*

The movement during the year in the balances of level 3 fair value measurement is as follows:

	Financial assets at FVTOCI HK$'000	Derivative financial liabilities HK$'000
As at 1 January 2018	6,160	–
Exchange alignment	(228)	–
As at 31 December 2018 and 1 January 2019	5,932	–
Acquisition of subsidiaries (Note 25)	(4,654)	–
Addition	2,021	–
Issue of convertible promissory notes (Note 31)	–	983
Issue of convertible loans (Note 31)	–	199
Change in fair value	–	(1,116)
Exchange alignment	(501)	–
As at 31 December 2019	**2,798**	**66**

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.

(d) 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 maximize 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.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and balance its overall capital structure through the payment of dividends and injection of capital.

4. FINANCIAL INSTRUMENTS *(Continued)*

(d) Capital risk management *(Continued)*

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the Group's total debt and hence the Group's adjusted debt-to-asset ratio rose from 31.6% to 43.6% on 1 January 2019 when compared to its position as at 31 December 2018.

The Group's adjusted debt-to-asset ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	As at 31 December 2019 **HK$'000**	As at 1 January 2019 (Note) HK$'000	As at 31 December 2018 (Note) HK$'000
Total liabilities	**280,159**	60,432	37,434
Total assets	**320,635**	138,666	118,370
Debt-to-asset ratio	**87.4%**	43.6%	31.6%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated (Note 2.1).

5. 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 food and beverage and entertainment industry. 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.

5. OPERATING SEGMENT *(Continued)*

Information about geographical areas

The Group's business and non-current assets are located in Hong Kong, the PRC, the United States of America (the "US") and Macau. The Group's revenue from external customers based on the location of the customers is detailed as below:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Macau	121,229	123,163
Hong Kong	85,704	83,705
The PRC	18,470	–
	225,403	206,868

The Group's locations of non-current assets are detailed as below:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Macau	48,154	4,897
Hong Kong	102,255	20,528
The PRC	72,138	5,155
The US	777	777
	223,324	31,357

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 (2018: nil).

6. REVENUE

Revenue represents the amounts received or receivable from the sales of food, beverage and other products, sponsorship income, revenue from club and restaurant operations and event organising (including entrance fees income, events rental income and cloakroom income) and loan interest income from Money Lending Business.

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

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Revenue from contracts with customers:		
Recognised at a point in time		
Sales of food, beverage and other products	**207,648**	182,008
Sponsorship income	**9,979**	9,140
Entrance fees income	**6,394**	14,483
Others (Note)	**837**	986
	224,858	206,617
Revenue from other sources:		
Loan interest income	**545**	251
	225,403	206,868

Note: Others mainly represent events rental income, cloakroom income, royalty and franchising income.

7. OTHER INCOME AND GAIN

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Net foreign exchange gain	**1,068**	1,094
Reversal of allowance for credit losses of sponsorship receivables	**9**	–
Reversal of allowance for credit losses of loan receivables	**214**	–
Consultancy fee income	**2,721**	958
Others (Note)	**1,145**	2,318
	5,157	4,370

Note: Others mainly included the tips income.

8. FINANCE COSTS

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Interest on convertible promissory notes	**719**	–
Interest on convertible loans	**457**	–
Interest on bank loans	**112**	–
Interest on bank overdrafts	**105**	25
Interest on lease liabilities	**3,982**	–
	5,375	25

9. PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries as at 31 December 2019 and 2018:

Name of subsidiaries	Place of incorporation	Place of operations	Issued and paid up capital/ contributed capital	Proportion of effective equity interests held by the Company				Principal activities
				Directly 2019	Directly 2018	Indirectly 2019	Indirectly 2018	
Luk Hing Investment Limited	Macau	Macau	MOP25,000	–	–	100%	100%	Operating of clubbing business
Luk Hing Investment (Hong Kong) Limited	Hong Kong	Hong Kong	HK$1	–	–	100%	100%	Organising music-related events
Luk Hing Group Development (China) Limited	Hong Kong	The PRC	HK$100	–	–	100%	100%	Operating of clubbing business
Luk Hing Capital Limited	Hong Kong	Hong Kong	HK$100	–	–	100%	100%	Money lending business
Betula Profit Holdings Limited	Hong Kong	Hong Kong	HK$20,000,000	–	–	59%	59%	Catering business
Unicorn Century Limited	Hong Kong	Hong Kong	HK$100	–	–	100%	100%	Catering business
珠海陸慶文化發展有限公司*	The PRC	The PRC	HK$20,000,000	–	–	100%	100%	Investment holding
珠海橫琴陸慶樺霖文化產業投資有限公司*	The PRC	The PRC	RMB20,000,000	–	–	100%	100%	Investment holding
珠海鋭樺酒吧管理有限公司#	The PRC	The PRC	RMB20,000,000	–	–	62%	–	Operating of clubbing business
珠海市陸慶麒天餐飲管理有限公司#	The PRC	The PRC	RMB12,000,000	–	–	100%	–	Investment holding
Hou Tin Zaak Limited	Hong Kong	Hong Kong	HK$1,000,000	–	–	59%	59%	Catering business
Luk Hing International Limited	The British Virgin Island (The "BVI")	Macau	USD1	100%	100%	–	–	Investment holding
L&B Betula Limited	The BVI	Hong Kong	USD1,000	–	–	74%	74%	Investment holding
Oasis Capital International Limited	Hong Kong	Hong Kong	HK$15,038,752	–	–	60%	–	Investment holding

* Registered as a wholly-foreign owned enterprises under the PRC Law.

\# Limited liability company established in the PRC.

9. PRINCIPAL SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the year or constituted a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries 2019	2018
Investment holding	The BVI	**7**	7
Inactive	Hong Kong	**2**	1

Detail of non-wholly owned subsidiaries that have material non-controlling interests:

Name of company	Place of incorporation registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests 2019	Loss allocated to non-controlling interests 2019 HK$'000	Accumulated non-controlling interests 2019 HK$'000
Zhuhai Ruiye Bar Management Company Limited	The PRC	**38%**	**10,390**	**7,943**

Summarised financial information in respect of each of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

9. PRINCIPAL SUBSIDIARIES *(Continued)*

Zhuhai Ruiye Bar Management Company Limited.

	2019 HK$'000
Current assets	9,155
Non-current assets	70,117
Current liabilities	(15,836)
Non-current liabilities	(84,339)
Equity attributable to owners of the Company	(12,960)
Non-controlling interests	(7,943)

	Period from 10 June 2019 to 31 December 2019 HK$'000
Revenue	20,886
Expenses	(48,229)
Loss for the period	(27,343)
Loss attribute to owners of the Company	(16,953)
Loss attribute to non-controlling interests	(10,390)
Loss for the period	(27,343)
Total comprehensive loss attributable to owners of the Company	(17,079)
Total comprehensive loss attributable to non-controlling interests	(10,438)
Total comprehensive loss for the period	(27,517)
Net cash flows generated from operating activities	5,460
Net cash flows used in investing activities	(17,354)
Net cash flows generated from financing activities	12,642
Net cash inflow	748

10. TAXATION

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Income tax expense		
— Macau Complementary Tax	**493**	416
— PRC Enterprise Income Tax	**134**	116
	627	532

Macau Complementary Tax is calculated at 12% of the assessable profit for the years ended 31 December 2019 and 2018.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits tax above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The two-tiered profits tax rates regime is applicable to the Company for the years ended 31 December 2019 and 2018.

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 2019 and 2018.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

At the end of the reporting period, the Group also had deductible temporary differences of approximately HK$989,000 (2018: HK$47,000). No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has estimated unused tax losses of appropriately HK$30,217,000 (2018: HK$8,205,000) available for offset against future profits that may be carried forward indefinitely. Tax losses of approximately HK$43,347,000 (2018: nil) will expire after five years from the year of assessment they related to. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

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.

10. TAXATION *(Continued)*

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 years of assessment ended 31 December 2013 and 2014 respectively.

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 and 2016 to 2018 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$5.1 million in aggregate for the years of assessment ended 31 December 2013 and 2014 to 2019.

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

On 25 July 2019, the Macau subsidiary received the ruling from the Administrative Court for the year of assessment ended 31 December 2013. According to the court's decision, the court considers that the Macau FSB apparently did not analysis on our explanation of the profit sharing to the owner of the club premises, and did not explain the reason why they consider the amount we paid to the owner of the club premises is just an profit distribution agreement only for the effectiveness of the profit tax declaration purpose. In addition, the Macau FSB did not mention the reason why the Net Profit we paid to the owner of the club premises does not have the nature of operating expenses. Therefore, the court considers that the decision of the Macau FSB is violating to the laws of Macau and the court rules in our favour and order to cancel the assessment of the profitable income for year 2013 and the decision of collecting the additional tax. The Macau FSB has lodged an appeal to the Administrative Court on 16 October 2019 in this regard.

At the same time, the Macau subsidiary received the ruling from the Administrative Court for the year of assessment ended 31 December 2014 in September 2019. The court understood that the amount paid to the owner of the club premises cannot be deemed as operating expenses, but rather as profit and subject to taxation, in spite of what is provided in the Operating Agreement. Furthermore, the court considers that the Macau FSB has not violated any of the principles of the Law raised by us, such as, lack of reasoning, error in the taxable income, and the decision made by the Macau FSB shall be maintained. The Macau subsidiary has filed a second appeal to the Administrative Court on 1 November 2019 in this regard.

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 2019 HK$'000	Year ended 31 December 2018 HK$'000
(Loss)/profit before taxation	**(42,144)**	3,713
Tax at the applicable income tax rate	**(9,158)**	497
Tax effect of temporary difference not recognised	**989**	47
Tax effect of expenses not deductible for tax purpose	**383**	110
Tax losses not recognised	**10,463**	1,358
Tax effect of non-taxable income	**(1,105)**	(230)
Exemption for tax liabilities in Macau Complementary Tax (Note)	**(70)**	70
Utilisation of previously unrecognised tax losses	**(1,067)**	(1,425)
Over provision in previous years	**192**	105
Taxation for the year	**627**	532

Note: Under the Macau Complementary Tax, for the years of assessment 2019 and 2018, the taxable profits up to MOP600,000 was exempted.

11. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Staff costs:		
Directors' emoluments (included retirement scheme contributions) (Note 12)	**2,686**	2,702
Salaries and other benefits	**72,420**	51,879
Retirement benefits scheme contributions	**2,343**	1,258
	77,449	55,839
Auditors' remuneration		
Audit services		
— HLB Hodgson Impey Cheng Limited	**950**	700
— Other auditor	**171**	102
Non-audit services		
— HLB Hodgson Impey Cheng Limited	**400**	–
	1,521	802
Cost of inventories sold	**53,900**	44,596
Allowance for credit losses of account and other receivables (Note 21)	**619**	858
Reversal of allowance for credit losses of sponsorship receivables (Note 21)	**(9)**	–
Allowance for credit losses of loan receivables (Note 22)	**–**	264
Reversal of allowance for credit losses of loan receivables (Note 22)	**(214)**	–
Fair value change of financial assets at FVTPL	**(61)**	–
Fair value change of derivative financial liabilities	**(1,116)**	–
Rental expenses previously classified as operating leases under HKAS 17	**–**	20,104
Short term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16	**9,760**	–
Profit sharing for lease payment (Note)	**5,764**	6,181
	15,524	26,285
Equity-settled share option expense	**378**	378
Depreciation of plant and equipment (Note 15)	**11,036**	6,556
Depreciation of right-of-use assets (Note 19)	**14,598**	–
Amortisation of intangible assets (Note 16)	**114**	114
	25,748	6,670

Note: 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.

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 2019 HK$'000	Year ended 31 December 2018 HK$'000
Directors' fees	560	560
Salaries and other benefits	2,090	2,090
Retirement schemes contributions	36	52
	2,686	2,702

(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 2019 and 2018 are as follows:

For the year ended 31 December 2019

	Fees HK$'000	Salaries, allowances bonuses and benefits kind HK$'000	Retirement scheme contributions HK$'000	Total remuneration HK$'000
Executive directors				
Mr. Choi Yiu Ying (Note (i))	–	935	2	937
Mr. Choi Siu Kit	–	840	18	858
Mr. Yeung Chi Shing	–	315	16	331
Non-executive directors				
Mr. Au Wai Pong, Eric	–	–	–	–
Mr. Au Ka Wai (Note (ii))	–	–	–	–
Mr. Au Lon Weng (Note (iii))	–	–	–	–
Ms. Poon Kam Yee, Odilia	–	–	–	–
Independent non-executive directors				
Mr. Lam Wai Chin, Raymond	180	–	–	180
Mr. Chan Ting Bond, Michael	180	–	–	180
Mr. Tse Kar Ho, Simon	200	–	–	200
	560	2,090	36	2,686

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

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

For the year ended 31 December 2018

	Fees HK$'000	Salaries, allowances bonuses and benefits kind HK$'000	Retirement scheme contributions HK$'000	Total remuneration HK$'000
Executive directors				
Mr. Choi Yiu Ying (Note (i))	–	935	18	953
Mr. Choi Siu Kit	–	840	18	858
Mr. Yeung Chi Shing	–	315	16	331
Non-executive directors				
Mr. Au Wai Pong, Eric	–	–	–	–
Mr. Au Ka Wai (Note (ii))	–	–	–	–
Mr. Au Lon Weng (Note (iii))	–	–	–	–
Ms. Poon Kam Yee, Odilia	–	–	–	–
Independent non-executive directors				
Mr. Lam Wai Chin, Raymond	180	–	–	180
Mr. Chan Ting Bond, Michael	180	–	–	180
Mr. Tse Kar Ho, Simon	200	–	–	200
	560	2,090	52	2,702

Notes:

(i) 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.

(ii) Mr. Au Ka Wai has been appointed as a non-executive Director with effect from 9 August 2018.

(iii) Mr. Au Ion Weng has resigned as a non-executive Director with effect from 9 August 2018.

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

(b) Employees' emoluments

The five highest paid individuals during the year included 2 directors (2018: 2 directors) whose emoluments are disclosed in above. The aggregate of the emoluments in respect of the other 3 individuals (2018: 3 individuals) with the highest emoluments are as follows:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Salaries, allowances and benefits in kind	**2,847**	2,725
Retirement scheme contributions	**39**	36
	2,886	2,761

The emoluments of the other 3 individuals (2018: 3 individuals) with the highest emoluments are within the following bands:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**–**	1

Senior management of the Group

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

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Nil to HK$1,000,000	**–**	1

During the years ended 31 December 2019 and 2018, 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 2019 and 2018. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

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 2019 (2018: nil).

14. (LOSS)/EARNINGS PER SHARE

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

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
(Loss)/earnings for the purpose of basic and diluted (loss)/ earnings per share	**(30,633)**	2,201
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**1,800,000**	1,800,000
Effect of diluted potential ordinary shares:		
— Share option (Note)	**–**	268
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**1,800,000**	1,800,268

Note: The diluted loss per share for the year ended 31 December 2019 was calculated by adjusting the loss for the year attributable to the owners of the Company to assume the conversion of all convertible loans and convertible promissory notes. For the share option, the computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price of shares for the year ended 31 December 2019. The amount of diluted loss per share is same as the basic loss per share as the effect is antidilutive.

The diluted earnings per share for the year ended 31 December 2018 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

15. PLANT AND EQUIPMENT

	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 2018	987	600	17,270	1,428	12,664	32,949
Additions	–	22	3,104	173	2,338	5,637
As at 31 December 2018 and 1 January 2019	987	622	20,374	1,601	15,002	38,586
Acquisition of subsidiaries (Note 25)	–	–	70	–	12,631	12,701
Additions	396	156	11,288	329	51,720	63,889
Exchange alignment	–	–	(1)	–	(239)	(240)
As at 31 December 2019	**1,383**	**778**	**31,731**	**1,930**	**79,114**	**114,936**
Accumulated depreciation						
As at 1 January 2018	469	469	9,218	786	888	11,830
Charge for the year	183	38	3,002	171	3,162	6,556
As at 31 December 2018 and 1 January 2019	652	507	12,220	957	4,050	18,386
Charge for the year	168	53	3,638	209	6,968	11,036
Exchange alignment	–	–	8	–	(43)	(35)
As at 31 December 2019	**820**	**560**	**15,866**	**1,166**	**10,975**	**29,387**
Net book values						
As at 31 December 2019	**563**	**218**	**15,865**	**764**	**68,139**	**85,549**
As at 31 December 2018	335	115	8,154	644	10,952	20,200

16. INTANGIBLE ASSETS

	HK$'000
Cost	
As at 1 January 2018	972
Additions	130
As at 31 December 2018 and 1 January 2019	1,102
Additions	–
As at 31 December 2019	**1,102**
Accumulated amortisation	
As at 1 January 2018	152
Charge for the year	114
As at 31 December 2018 and 1 January 2019	266
Charge for the year	114
As at 31 December 2019	**380**
Net book values	
As at 31 December 2019	**722**
As at 31 December 2018	836

The intangible assets include the dance hall license and karaoke license of the club premises and vehicle registration marks. The directors of the Company estimated the useful lives of the vehicle registration marks is 5 years. 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 in 8.5 years of the dance hall license and karaoke license are same expiry date of the operating agreement of the club premises.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019 HK$'000
Life insurance policy	6,061

During the year ended 31 December 2019, the Group entered into life insurance policies with an insurance company to insure against the death and permanent disability of Mr. Choi Siu Kit, the executive director of the Company. Under the policies, the beneficiary and policy holder is the Company, and the total insured sum is approximately HK$6,000,000. The contracts will be terminated on the occurrence of the earliest of the death of the executive director insured or other terms pursuant to the contracts. The Company has paid out the total insurance premium with an aggregate amount of approximately HK$6,000,000 at the inception of the policies. The Group may request a surrender of the contracts at any time and receive cash back based on the cash value at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged (the "Cash Value").

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Unlisted equity investment	2,798	5,221
Unlisted share investment	–	711
	2,798	5,932

Included in the balance as at 31 December 2019 is the cash capital contribution of RMB1,810,000 to invest around 9.05% of a company in the PRC, which is principally engaged in the operation and management of clubbing venue in Guangzhou.

Included in the balances as at 31 December 2018 is a cash capital contribution of RMB3,894,000 and a loan contribution of RMB606,000 to invest around 19.47% of a company in the PRC, which is principally engaged in the operation and management of clubbing venue in Zhuhai and is known as Club Cubic Zhuhai. The remaining balance represents an investment in convertible preferred stock of an oversea entity.

These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in financial assets at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

19. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Right-of-use assets

	2019 HK$'000
As at 1 January	20,297
Acquisition of subsidiaries	20,721
Addition during the year (Note)	84,881
Depreciation provided during the year	(14,598)
Exchange alignment	(395)
As at 31 December	110,906

The right-of-use assets represent the Group's rights to use underlying leased premises under operating lease arrangements over the lease terms, which are stated at cost less accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the lease liabilities.

Lease liabilities

	2019 HK$'000
Analysed as	
— Current	23,011
— Non-current	105,386
	128,397
Minimum lease payments due	
— Within one year	29,852
— More than one year but not later than two years	27,309
— More than two years but not later than five years	63,434
— Over five years	34,225
	154,820
Less: Future finance charges	(26,423)
Present value of lease liabilities	128,397

Note: During the current year, the Group leases 5 more properties for the operation of restaurant and clubbing business. Lease contracts are entered into for fixed term of 2 to 7.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2019, none of the Group's right-of-use assets have been pledged to secure banking facilities granted to the Group.

20. INVENTORIES

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Food and beverages	**8,044**	4,932
Other operating items for club and restaurant operations	**134**	74
	8,178	5,006

21. ACCOUNT AND OTHER RECEIVABLES

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Account receivables	**8,916**	9,784
Less: Allowance for credit losses	**(928)**	(794)
	7,988	8,990
Sponsorship receivables	**3,664**	1,400
Less: Allowance for credit losses	**(34)**	(43)
	3,630	1,357
Other receivables	**8,732**	974
Less: Allowance for credit losses	**(169)**	(21)
	8,563	953
Prepayments	**11,346**	7,143
Deposits	**32,840**	18,309
Less: Allowance for credit losses	**(337)**	–
	32,503	18,309
	64,030	36,752
Portion classified as non-current		
— Deposits	**(8,136)**	(4,389)
Current portion	**55,894**	32,363

21. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

For account 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.

The Group seeks to maintain strict control over its outstanding receivables. Long outstanding balances are reviewed regularly by senior management. In view of the aforementioned and the fact that account receivables of the Group relate to a large number of diversified customers, there is no significant concentration of credit risk. Account receivables are non-interest-bearing.

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

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
0 to 30 days	**4,996**	5,694
31 to 60 days	**1,394**	1,018
61 to 90 days	**698**	1,092
91 to 120 days	**564**	398
Over 120 days	**336**	788
	7,988	8,990

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

Movement in the accumulated allowance for credit losses of account receivables

	2019 HK$'000	2018 HK$'000
As at 1 January	**794**	373
Amounts written off as uncollectible	**–**	(373)
Allowance for credit losses recognised during the year	**134**	794
As at 31 December	**928**	794

21. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

Movement in the accumulated allowance for credit losses of sponsorship receivables

	2019 HK$'000	2018 HK$'000
As at 1 January	43	–
Reversal of allowance for credit losses	(9)	–
Allowance for credit losses recognised during the year	–	43
As at 31 December	34	43

Movement in the accumulated allowance for credit losses of other receivables

	2019 HK$'000	2018 HK$'000
As at 1 January	21	–
Allowance for credit losses recognised during the year	148	21
As at 31 December	169	21

Movement in the accumulated allowance for credit losses of deposits

	2019 HK$'000	2018 HK$'000
As at 1 January	–	–
Allowance for credit losses recognised during the year	337	–
As at 31 December	337	–

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

Included in the above provision for impairment of account and other receivables is a provision for individually impaired account and other receivables of approximately HK$1,468,000 (2018: HK$858,000). The individually impaired receivables related to customers that were in financial difficulties and management assessed that the receivables are unlikely to be recovered.

21. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2019, the Group's prepayments mainly represents prepayments for performance fee of featured events of approximately HK$2,300,000 (2018: HK$2,633,000) and prepayments for legal and professional fees of approximately HK$1,667,000 (2018: HK$2,125,000). As at 31 December 2019, the Group's deposits mainly represents deposits for acquisition of plant and equipment and decoration of approximately HK$27,234,000 (2018: HK$12,372,000), rental deposits of approximately HK$9,152,000 (2018: HK$4,869,000), and deposits for holding featured events of approximately HK$193,000 (2018: HK$228,000). As at 31 December 2019, the amounts of the Group's other receivables mainly represent value added tax recoverable from Club Cubic Zhuhai of approximately HK$3,836,000 (2018: nil).

22. LOAN RECEIVABLES

Loan receivables arise from the Group's Money Lending Business which grants loans to entities in the food and beverage and entertainment industry. The gross loan receivables of approximately HK$5,450,000 were carrying interest at 10% per annum. The loan receivables were recoverable according to repayment schedules, normally with contractual maturity within one year as at 31 December 2019 and 2018. Included in loan receivables, there was approximately HK$1,000,000 as at 31 December 2019 (2018: HK$1,000,000) represented a loan to a related party which was unsecured, carried interest 10% per annum and recoverable within one year.

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Loan receivables, gross	**5,450**	8,876
Less: Allowance for credit losses	**(50)**	(264)
Loan receivables, net	**5,400**	8,612

The following is an ageing analysis of loan receivables at the end of each reporting period, presented based on the remaining period to contractual maturity date:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Within one year	**5,400**	8,612

The amount is neither past due nor impaired for whom there was no recent history of default.

22. LOAN RECEIVABLES *(Continued)*

Movement in the accumulated allowance for credit losses of loan receivables

	2019 HK$'000	2018 HK$'000
As at 1 January	**264**	–
Reversal of allowance for credit losses	**(214)**	–
Allowance for credit losses recognised during the year	**–**	264
As at 31 December	**50**	264

23. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS

	Note	As at 31 December 2019 HK$'000
Zhuhai Wei Chong Culture Broadcasting Company Limited	(i)	**446**
New Jin Yi investment Company limited	(i)	**2,233**
Guangzhou Baohui Culture Development Company Limited	(i)	**161**
Zhuhai City Zhisheng Commercial Consultancy Company Limited	(i)	**1,688**
		4,528

Note:

(i) As at 31 December 2019, the amounts mainly represent the outstanding balance of the capital injection to Zhuhai Ruiye Bar Management Company Limited ("Club Cubic Zhuhai") from investors. The amounts were unsecured, interest-free and recoverable on demand.

24. CASH AND CASH EQUIVALENTS/BANK OVERDRAFTS

Cash and cash equivalents

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
MOP	6,038	15,931
HK$	14,522	24,334
RMB	2,751	767
	23,311	41,032

Cash and cash equivalents carry interest at 0.01% to 0.1% market rates per annum for the year ended 31 December 2019 (2018: 0.01% to 0.30%).

Bank overdrafts

Bank overdrafts carry interest at market rates which range from 5.3% to 5.4% (2018: from 5.3% to 5.4%) per annum.

25. ACQUISITION OF SUBSIDIARIES

Acquisition of Oasis Capital International Limited ("Oasis Capital")

On 10 June 2019, Luk Hing Capital Limited, a wholly owned subsidiary of the Company completed the subscription of 9,080,000 shares of Oasis Capital, represented 72.73% of the total issued shares of Oasis Capital upon completion of the share subscription. On 10 June 2019, Oasis Capital which holds 48.33% effective interest of Club Cubic Zhuhai. Club Cubic Zhuhai is the direct subsidiary of Oasis Capital. The Group also directly holds 19.47% effective interest of Club Cubic Zhuhai through a wholly owned subsidiary. In effect, Club Cubic Zhuhai became an indirect non-wholly owned subsidiary of the Group. Club Cubic Zhuhai principally engages in the operation and management of Club Cubic Zhuhai in the PRC. The Group has acquired Oasis Capital because it expands the Group's clubbing business development portfolio.

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Club Cubic Zhuhai for the period from the acquisition date.

The fair values of the identifiable assets and liabilities of Oasis Capital as at the date of acquisition were:

	Fair value recognised on acquisition HK$'000
Assets	
Plant and equipment	12,701
Right-of-use assets	20,721
Account and other receivables	5,856
Amounts due from non-controlling interests	3,414
Cash and cash equivalents	9,140
	51,832

25. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Oasis Capital International Limited ("Oasis Capital") *(Continued)*

	Fair value recognised on acquisition HK$'000
Liabilities and Shareholders' Equity	
Lease liabilities	(28,203)
Account and other payables	(12,291)
Amounts due to non-controlling interests	(3,427)
Non-controlling interests	(3,329)
	(47,250)
Total identifiable net assets at fair value	4,582
Goodwill arising on acquisition	9,152
Consideration transferred	13,734
Consideration satisfied by:	
Financial assets at FVTOCI	4,654
Subscription of registered share capital by cash	9,080
	13,734
Cash inflow arising on acquisition:	
Cash and cash equivalent acquired	9,140
Less: Cash transferred	(9,080)
	60

Had the acquisition been completed on 1 January 2019, revenue for the year of the Group would have been of approximately HK$225,403,000, and loss for the year of the Group would have been of approximately HK$47,204,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

26. GOODWILL

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	As at 31 December 2019 HK$'000
Clubs and restaurants operation (Note 25)	**9,152**

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the respective CGU to which goodwill has been allocated. The recoverable amount of the CGU is determined based on the value in use calculation which requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

The recoverable amount of the CGU to which goodwill is allocated, being the clubbing business conducted by Club Cubic Zhuhai, a non-wholly owned subsidiary, which was acquired during the year ended 31 December 2019. The recoverable amount of the CGU to which the goodwill has been determined based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using a growth rate of 3%, which does not exceed the long-term growth rate for the clubbing business industry in the PRC. Discount rate is 12.86% which is pre-tax and reflect specific risks relating to the relevant CGU. Gross profit margin range from approximately 73% to approximately 77% which has been determined with reference to actual performance and the expected market development. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount.

27. ACCOUNT AND OTHER PAYABLES

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Account payables	**10,259**	4,344
Rental payables (Note (i))	**6,797**	6,343
Deferred rentals	**–**	1,964
Other payables	**62,467**	11,118
Accruals	**12,822**	7,873
	92,345	31,642
Portion classified as non-current		
— Other payables (Note (ii))	**(33,822)**	–
— Deferred rentals	**–**	(1,600)
Current portion	**58,523**	30,042

Notes:

(i) The rental payables represent the short-term leases expense and contingent rental expense of approximately HK$2,547,000 and HK$4,250,000 respectively.

(ii) The other payables classified as non-current liabilities represent the design and renovation fee of Club Cubic Zhuhai which were unsecured, interest-free and not repayable within 12 months.

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

27. 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 2019 HK$'000	As at 31 December 2018 HK$'000
0–30 days	6,166	4,052
31–60 days	2,257	216
61–90 days	933	20
91 to 120 days	903	–
Over 120 days	–	56
	10,259	4,344

28. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests were unsecured, non-interest bearing and are not repayable within 12 months.

29. PROVISION FOR REINSTATEMENT COSTS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
As at 1 January	715	715
Provision	850	–
As at 31 December	1,565	715
Less: Non-current portion	(1,565)	(715)
Current portion	–	–

Provision for reinstatement costs is recognised for the costs to be incurred for the reinstatement of the properties used by the Group for its operations upon expiration of the relevant leases. As at 31 December 2019, the Group expected that the total undiscounted costs required in the future would amount to approximately HK$1,565,000 (2018: HK$715,000).

30. SHARE CAPITAL

The share capital of the Group as at 31 December 2019 and 2018 represented the share capital of the Company. Movements of the share capital of the Company are as follows:

	2019		2018	
	Number shares '000	Nominal value HK$'000	Number of shares '000	Nominal value HK$'000
Authorised				
Ordinary share of HK$0.01 each				
As at 31 December	**10,000,000**	**100,000**	10,000,000	100,000
Issued and fully paid				
As at 1 January and 31 December	**1,800,000**	**18,000**	1,800,000	18,000

31. DERIVATIVE FINANCIAL LIABILITIES

	Convertible promissory notes HK$'000	Convertible loans HK$'000	Total HK$'000
As at 1 January 2019	–	–	–
Issue of convertible promissory notes	983	–	983
Issue of convertible loans	–	199	199
Change in fair value	(938)	(178)	(1,116)
As at 31 December 2019	**45**	**21**	**66**

Note: Derivative financial liabilities represent the conversion option derivatives embedded in convertible promissory notes and convertible loans which allows the holders exercise the conversion rights. The fair value is measured using the Binominal Option Pricing model at initial recognition and at the end of the reporting period.

32. CONVERTIBLE LOANS

On 10 June 2019, Luk Hing Capital Limited ("Luk Hing Capital"), a subsidiary of the Company, as borrower and the Company, as guarantor of Luk Hing Capital entered into the convertible loan agreements with the lenders. The convertible loans bear an annual interest of 9% payable in arrear annually with aggregate principal amount of RMB8 million (equivalent to approximately HK$9.08 million), with a term commencing from 10 June 2019 until 36 months from opening of a clubbing venue in Zhuhai by Zhuhai Ruiye Bar Management Company Limited, a non-wholly owned subsidiary ("Club Cubic Zhuhai").

According to the Group's accounting policy, the convertible loans are classified separately as financial liabilities and derivative financial liabilities in accordance with the substance of the contractual arrangements. Conversion option that will be settled by the share of an affiliated company of Luk Hing Capital. Should any of the holders of convertible loans elect to exercise the conversion, Luk Hing Capital would be responsible for the payment of a bonus, subject to a cap of interest of 25% per annum on the principle amount of the convertible loans in accordance with interest period.

32. CONVERTIBLE LOANS *(Continued)*

The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. The fair value assessment of the convertible loans was performed by an independent professional valuer. The effective interest rate of the liability element on initial recognition is 9.17% per annum.

The maturity date of the convertible loans is the 3 year from the date of issue. Conversion option can be exercised at the maturity date of the converted loans. The Company will redeem the convertible loans if the shares have not been converted on maturity date.

The fair value of the convertible loans is approximately HK$8,880,000 as at 31 December 2019 (2018: nil).

For more details of the terms of convertible loans, please refer to the circular dated on 10 June 2019.

The liability component of convertible loans recognised in the consolidated statement of financial position was calculated as follow:

	HK$'000
As at 1 January 2019	–
Issue of convertible loans	8,881
Effective interest expenses charged	457
Interest expenses paid and payable	(458)
As at 31 December 2019	**8,880**

33. CONVERTIBLE PROMISSORY NOTES

On 3 July 2019, the Company entered into the note purchase agreements ("NPA") with investors in the aggregate principal amount of approximately RMB16.0 million. The proceeds are intended to be used for the additional investment by the Group to Club Cubic Zhuhai. The convertible promissory notes bear an annual interest rate of 9% payable in arrear annually with aggregate principal amount of RMB16.0 million, with a term commencing from 3 July 2019 until 36 months from opening of a clubbing venue in Zhuhai by Club Cubic Zhuhai.

According to the Group's accounting policy, the convertible promissory notes are classified separately as financial liabilities and derivative financial liabilities in accordance with the substance of the contractual arrangements. Conversion option that will be settled by the share of Luk Hing Group Development (China) Limited ("Luk Hing China") based on the conversion ratio of USD100,000 of the principle amount to 1.03% of shares of Luk Hing China provided that Luk Hing China shall in turn hold not less than 44.44% of the equity interests of Zhuhai JV, subject to the adjustment described in the NPA. If any of the investors elects not to exercise the conversion, the entire principal amount of the convertible promissory notes shall be redeemed by the Company at a redemption amount equal to the entire principal amount of the convertible promissory notes together with fixed interests accrued thereon, subject to adjustment described in the NPA.

The effective interest rate of the liability element on initial recognition is 11.55% per annum.

The fair value of the convertible promissory notes is approximately HK$17,344,000 as at 31 December 2019 (2018: nil).

33. CONVERTIBLE PROMISSORY NOTES *(Continued)*

For more details of the terms of convertible promissory notes, please refer to the circular dated on 22 August 2019.

The liability component of convertible promissory notes recognised in the consolidated statement of financial position was calculated as follow:

	HK$'000
As at 1 January 2019	–
Issue of convertible promissory notes	17,218
Effective interest expenses charged	719
Interest expenses paid and payable	(593)
As at 31 December 2019	**17,344**

34. BANK LOANS

	As at 31 December 2019 HK$'000
Bank loans repayable as follows:	
Within 1 year	**1,200**
More than one year but not later than two years	**1,200**
More than two years but not later than five years	**8,700**
	11,100

As at 31 December2019, the secured bank loans bear interest rate range from 2.45% to 4.25% per annum.

The weighted average affective interest rate of bank loans as at 31 December 2019 was approximately 3.40%.

At 31 December 2019, the bank loans of approximately HK$5,100,000 was pledged by the financial assets at FVTPL and of approximately HK$6,000,000 was guaranteed by the corporate guarantee of the Company.

35. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

(a) Statement of Financial Position

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Assets			
Non-current asset			
Investment in subsidiaries	9	–	–
Financial assets at FVTPL		6,061	–
		6,061	–
Current assets			
Account and other receivables		2,101	2,194
Loan receivables		4,000	–
Amounts due from subsidiaries		58,001	73,648
Cash and cash equivalents		3,711	428
		67,813	76,270
Liabilities			
Current liabilities			
Account and other payables		8,092	948
Derivative financial liabilities		41	–
		8,133	948
Net current assets		59,680	75,322
Total assets less current liabilities		65,741	75,322
Non-current liabilities			
Bank loans		5,100	–
Convertible promissory notes		17,344	–
		22,444	–
Net assets		43,297	75,322
Equity			
Share capital	30	18,000	18,000
Reserves	35(b)	25,297	57,322
		43,297	75,322

The financial statements were approved and authorised for issue by the Board of Directors on 8 May 2020 and signed on its behalf by:

Choi Yiu Ying	**Choi Siu Kit**
Director	*Director*

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

(b) Reserve of the Company

	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation losses HK$'000	Total HK$'000
As at 1 January 2018	66,235	(6,972)	–	59,263
Loss and total comprehensive loss for the year	–	(2,319)	378	(1,941)
As at 31 December 2018 and 1 January 2019	66,235	(9,291)	378	57,322
Loss and total comprehensive loss for the year	–	(32,403)	378	(32,025)
As at 31 December 2019	**66,235**	**(41,694)**	**756**	**25,297**

As at 31 December 2019, the Company had reserves of approximately HK$25,297,000 available for distribution in accordance with the Company law of Cayman Islands (2018: HK$57,322,000).

36. RETIREMENT 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.

The amounts charged to the consolidated statement of profit or loss and other comprehensive income which amounted to HK$2,343,000 (2018: HK$1,258,000) represents contributions payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of no (2018: no) arising from employees leaving the Group prior to completion of qualifying service period.

As at 31 December 2019, forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years amounted to nil (2018: nil).

36. RETIREMENT BENEFIT PLANS *(Continued)*

Employees (Continued)

PRC

The employees of the Group's operations in Mainland China are required to participate in central pension schemes operated by the local municipal governments, the assets of which are held separately from those of the Group. Contributions are made by the Group based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes. The Group's employer contributions vest fully once made.

37. 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. On 2 October 2018, certain employees and consultants of the Group were granted shares options to subscribe for 30,142,308 shares at an exercise price of HK$0.061 per share.

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

37. SHARE OPTION SCHEME *(Continued)*

Details of specific categories of options are as follows:

Category/ name of grantee	Date of grant	Exercise date/period	Exercise price per share	Number of share options: Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Lapsed during the year ended 31 December 2019	Outstanding as at 31 December 2019
Employees and	2 October 2018	(Note (1))	HK$0.061	9,042,692	–	–	–	9,042,692
Consultants	2 October 2018	(Note (2))	HK$0.061	9,042,692	–	–	–	9,042,692
	2 October 2018	(Note (3))	HK$0.061	9,042,692	–	–	–	9,042,692
	2 October 2018	(Note (4))	HK$0.061	3,014,232	–	–	–	3,014,232
Total				30,142,308	–	–	–	30,142,308

Category/ name of grantee	Date of grant	Exercise date/period	Exercise price per share	Number of share options: Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Lapsed during the year ended 31 December 2018	Outstanding as at 31 December 2018
Employees and	2 October 2018	(Note (1))	HK$0.061	–	9,042,692	–	–	9,042,692
Consultants	2 October 2018	(Note (2))	HK$0.061	–	9,042,692	–	–	9,042,692
	2 October 2018	(Note (3))	HK$0.061	–	9,042,692	–	–	9,042,692
	2 October 2018	(Note (4))	HK$0.061	–	3,014,232	–	–	3,014,232
Total				–	30,142,308	–	–	30,142,308

Notes:

(1) Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2018 to 1 October 2028.

(2) Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2019 to 1 October 2028.

(3) Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2020 to 1 October 2028.

(4) Subject to fulfillment of the pre-determined vesting conditions, the shares options shall be vested and exercisable from 2 October 2021 to 1 October 2028.

As at 31 December 2019, the options outstanding have a weighted average remaining contractual life of 8.7 years (2018: 9.7 years).

No share options has been granted by the Company during the year ended 31 December 2019 (2018: 30,142,308). The estimated fair values of the options as at 31 December 2018 was approximately HK$920,000.

37. SHARE OPTION SCHEME *(Continued)*

These fair values were calculated using the Binomial Model. The inputs into the model were as follows:

	2018
Weighted average share price	HK$0.061
Weighted average exercise price	HK$0.061
Expected volatility	49%
Life of option	10 years
Risk free rate	2.42%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of similar Company's share price over the previous 10 years. The life of the options was the contractual life of the options. Expected dividends yield are based on historical dividends.

For the year ended 31 December 2019, the Group recognised total expenses of approximately HK$378,000 (2018: HK$378,000) related to equity-settled share-based payment transactions.

38. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

The Group leases the club premises, restaurant, staff quarters and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to five years. At 31 December 2018 period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2018 HK$'000
Within one year	13,971
In the second to fifth year inclusive	21,519
	35,490

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.

39. CAPITAL COMMITMENTS

The Group served a renewal notice with effect on 11 November 2016 to the owner of the club premise ("COD") in Macau 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 ("Expansion") of not less than MOP15.0 million (equivalent to approximately HK$14.6 million) by 1 October 2017, which was agreed to be extended.

However, as no agreement was reached between the Company and COD on the final commercial terms, the Board of the Company has resolved to suspend the Expansion and to reallocate the resources to the renovation of Club Cubic Macau ("Renovation") (please refer to the Company's announcement dated 26 September 2019 for details).

As at 31 December 2019, the amount authorized but not contracted for was approximately HK$10.6 million (2018: HK$7.7 million). Capital commitments outstanding at the end of the reporting period contracted but not provided for in the consolidated financial statements in respect of the Renovation were as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Plant and equipment	**1,052**	697

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

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Unpaid balance of capital contribution to a subsidiary in the PRC	**40,175**	7,414
Plant and equipment	**–**	26

40. 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.

40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) During the years ended 31 December 2019 and 2018, the Group had the following transactions with related parties:

Name of related parties	Nature of transactions	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Zone One (CS) Limited (Note (i))	Rental expenses	**1,200**	1,200
Xin Limited (Note (ii))	Loan interest income	**100**	179
	Marketing expenses	**–**	133

(c) The following table discloses the loan advanced to a related party for the years ended 31 December 2019 and 2018 (Note 22):

Name of a related party	Maximum amount outstanding during the year HK$'000	As at 31 December 2019 HK$'000	Maximum amount outstanding during the prior year HK$'000	As at 31 December 2018 HK$'000	Security held
Xin Limited (Note (ii))	**1,000**	**1,000**	2,000	1,000	None

Notes:

(i) 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.

(ii) Xin Limited is the subsidiary of Star Century Investments Limited. The executive directors of the Group are the ultimate shareholders of Star Century Investments Limited. The executive director of the Group, Mr. Choi Siu Kit, is also the director of Xin Limited.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease liabilities HK$'000 (Note 19)	Amounts due to/(from) non-controlling interests HK$'000 (Notes 23 and 28)	Bank overdrafts HK$'000 (Note 24)	Convertible loans HK$'000 (Note 32)	Convertible promissory notes HK$'000 (Note 33)	Bank loans HK$'000 (Note 34)
As at 31 December 2018	–	4,112	574	–	–	–
Impact on initial application of HKFRS 16 (Note 2.1)	24,963	–	–	–	–	–
As at 1 January 2019	24,963	4,112	574	–	–	–
Changes from financing cash flows:						
Loans from non-controlling interests	–	5,612	–	–	–	–
Proceeds from issuance of convertible loans	–	–	–	9,080	–	–
Proceeds from issuance of convertible promissory notes	–	–	–	–	18,201	–
Proceeds from bank loans	–	–	–	–	–	11,100
Proceeds from bank overdrafts	–	–	5,421	–	–	–
Repayment of lease liabilities	(9,531)	–	–	–	–	–
Interest element of lease rentals paid	(3,982)	–	–	–	–	–
Interest paid	–	–	(105)	–	–	(112)
Total changes from financing cash flows	(13,513)	5,612	5,316	9,080	18,201	10,988
Other changes:						
Exchange adjustment	(118)	(100)	–	–	–	–
Acquisition of subsidiaries (Note 25)	28,203	13	–	–	–	–
Increase in lease liabilities	84,880	–	–	–	–	–
Interest expenses (Note 8)	3,982	–	105	457	719	112
Others	–	–	–	(657)	(1,576)	–
As at 31 December 2019	**128,397**	**9,637**	**5,995**	**8,880**	**17,344**	**11,100**

42. CHANGE IN OWNERSHIP INTEREST IN SUBSIDIARIES

During the year ended 31 December 2019, the Group has further acquired 12.35% effective interest in Club Cubic Zhuhai and decreased 12.35% effective interest in Oasis Capital through capital injection. As a result, the Group recognised an increase in non-controllng interests and other reserve of approximately HK$1,135,000 and HK$92,000 respectively.

43. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 as at 1 January 2019. Under the transition methods, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.1 to consolidated financial statements.

44. EVENTS AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement dated 4 February 2020, the Company noted that all the casinos in the Macau Special Administrative Region of the People's Republic of China ("Macau") had been closed for two weeks to help control the spread of the novel coronavirus pneumonia (COVID-19) epidemic and the closures might have a material impact on the sales performance of Club Cubic Macau located at the Boulevard, City of Dreams, Macau. The Company had temporarily suspended the operation of Club Cubic Macau from 5 February 2020. As disclosed in the Company's announcement dated 12 March 2020, the operation of Club Cubic Macau had been resumed. Apart from that, our CUBIC SPACE+ (formerly named "Club Cubic Zhuhai") was required to suspend its operation to cooperate with the emergency public health policy according to the PRC government policy. The Group's revenue income from the clubbing and restaurant business has been significantly impacted by the outbreak of COVID-19. The Company had implemented home office arrangement to the greatest extent to preserve health of the staff and sustainability of business operation. Cost control measures such as salary saving scheme and temporary suspension of marketing and traveling expenses were adopted to minimise operating costs. The Company will closely monitor the development of the situation from time to time and make further announcement regarding the situation as and when appropriate.

The management will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Company. Due to the dynamic nature of the circumstances, management considers that the financial effects on the Group's consolidated financial statements cannot be reasonably estimated as at the date of these financial statements are authorised for issue. The related financial impacts will be reflected in the Group's 2020 financial statements.

On 30 March 2020, Luk Hing Mandarin Limited ("LH Mandarin"), an indirect wholly-owned subsidiary of the Company entered into a subscription agreements with the subscribers, namely Deliciae Brands Limited, Mr. Chan Ting Lai, Ming Yin Development Company Limited, Able Well Investment Limited and Ms. Choy Lai Shan (together referred as to "Subscribers"), pursuant to which (i) the Subscribers conditionally agreed to subscribe for and LH Mandarin conditionally agreed to allot and issue 6,127,200 LH Mandarin shares at the aggregate subscription price of HK$6,127,200, and (ii) to provide the shareholders' loan to LH Mandarin. L&B Mandarin Limited ("L&B Mandarin"), the immediate holding company of LH Mandarin before share subscription, will also provide a shareholder's loan to LH Mandarin on a pro rata basis according to its shareholding in LH Mandarin upon completion of the share subscription. Upon completion, the Company's effective interest in LH Mandarin will reduce from 100% to 23.33% thus constituting a deemed disposal of the Company, and LH Mandarin will also cease to be a subsidiary of the Company.

45. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 8 May 2020.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**225,403**	206,868	137,384	129,302	125,521
Listing expenses	**–**	–	–	(16,165)	(2,469)
(Loss)/profit before taxation	**(42,144)**	3,713	(13,295)	(6,184)	10,220
Total comprehensive (loss)/income for the year	**(42,692)**	2,947	(13,430)	(6,184)	9,420

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**320,635**	118,370	112,797	110,690	44,832
Total liabilities	**280,159**	37,434	35,186	23,651	30,013
Net current assets	**8,235**	56,006	52,287	80,517	8,825
Net assets	**40,476**	80,936	77,611	87,039	14,819

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 (now known as COD Resorts 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 clubbing venue in Zhuhai to be operated by a joint venture company in which the Group shall hold less than 20% interest, details of which are disclosed in the Company's announcement dated 12 December 2016, 10 February 2017, 11 April 2017, 11 May 2017 and 2 June 2017
"COD"	COD Resorts Limited, which merged with Melco Resorts (COD) Retail Services Limited (formerly known as Melco Crown (COD) Retail Services Limited), owner of the club premises of Club Cubic Macau
"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 ("Welmen"), 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. Choi Kuen Kwan (on 20 August 2019, Mr. Yeung Bernard Sie Hong sold all his shares in Welmen to Mr. Choi Kuen Kwan (father of Mr. Choi Yiu Ying and Mr. Choi Siu Kit)) and Mr. Yeung Chi Shing. Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Choi Kuen Kwan 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
"DJ"	disc jockey
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	The Rules Governing the Listing of Securities on GEM
"Group"	the Company and/or any of its subsidiaries
"HEXA"	a modern Chinese restaurant operated by the Group under the name of HEXA which was opened in October 2017 and located at shop OTE 101, ground floor, Ocean Terminal, Harbour City, Tsim Sha Tsui, Hong Kong

DEFINITIONS AND GLOSSARY

"HK$" or "HKD"	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
"Listing"	the listing of the Shares on GEM on 11 November 2016
"Macau"	The Macau Special Administrative Region of the PRC
"MOP"	Macau Pataca(s), the lawful currency of Macau
"M&A"	memorandum of association and articles of association
"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. The operating agreement was renewed to a term until March 2017. On 26 September 2019, the Company renewed the Operating Agreement with COD for a term until March 2027
"PRC"	the People's Republic of China (for the purpose of this annual result announcement, 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$0.01 each in the issued share capital of the Company
"Shareholders"	the holders of the Shares
"SIXA"	a modern Chinese restaurant wholly-owned by HEXA which was opened in August 2019 and located at Shop 601, 6/F, Citygate, 18–20 Tat Tung Road, Tung Chung, Lantau, Hong Kong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States" or "US"	the United States of America
"US$" or "USD"	United States dollar, the lawful currency of the United States