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LUK HING ENTERTAINMENT GROUP

INTERIM REPORT 2020

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

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

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

INTERIM RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three-month and six-month periods ended 30 June 2020, together with the unaudited comparative figures for the respective corresponding period in 2019, as follows:

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

	Notes	Three-month period ended 30 June		Six-month period ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	29,774	55,552	54,838	101,445
Other income and gain	4	5,933	1,279	7,366	2,394
Cost of inventories sold		(9,145)	(11,884)	(16,392)	(22,882)
Staff costs		(10,536)	(15,467)	(24,940)	(30,688)
Property rentals and related expenses		(2,138)	(4,418)	(5,088)	(5,628)
Advertising and marketing expenses		(374)	(5,988)	(1,937)	(9,834)
Other operating expenses		(12,463)	(12,189)	(25,180)	(22,595)
Gain on disposal of subsidiary	7	-	-	9,714	-
Share of losses of associate company		(167)	-	(167)	-
Depreciation and amortisation		(9,367)	(4,818)	(20,709)	(9,705)
Finance costs	8	(2,257)	(34)	(4,858)	(34)
(Loss)/Profit before taxation		(10,740)	2,033	(27,353)	2,473
Taxation	5	-	(567)	-	(585)
(Loss)/Profit for the period		(10,740)	1,466	(27,353)	1,888
Other comprehensive (loss)/income:					
Exchange difference on translating of financial statements of overseas subsidiaries		26	121	(15)	237
Total comprehensive (loss)/income for the period		(10,714)	1,587	(27,368)	2,125
(Loss)/Profit for the period attributable to:					
Owners of the Company		(9,426)	1,213	(22,136)	962
Non-controlling interests		(1,314)	253	(5,217)	926
		(10,740)	1,466	(27,353)	1,888
Total comprehensive (loss)/income for the period attributable to:					
Owners of the Company		(9,400)	1,334	(22,151)	1,199
Non-controlling interests		(1,314)	253	(5,217)	926
		(10,714)	1,587	(27,368)	2,125
(Loss)/earnings per share (HK cents)					
— Basic and diluted	6	(0.52)	0.07	(1.23)	0.05

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Assets			
Non-current assets			
Plant and equipment	10	75,250	85,549
Intangible assets		665	722
Financial assets at fair value through profit or loss	11	6,061	6,061
Financial assets at fair value through other comprehensive income	12	2,758	2,798
Right of use assets	13	72,731	110,906
Goodwill		9,152	9,152
Deposits	14	4,697	8,136
		171,314	223,324
Current assets			
Inventories		9,297	8,178
Account and other receivables	14	33,779	55,894
Loan receivables	15	4,709	5,400
Amount due from an associate company		3,748	–
Amount due from non-controlling interests		4,002	4,528
Cash and cash equivalents		17,058	23,311
		72,593	97,311
Liabilities			
Current liabilities			
Account and other payables	16	50,622	58,523
Lease liabilities	13	15,591	23,011
Bank overdrafts		2,924	5,995
Derivative financial liabilities		45	45
Income tax payables		302	302
Bank loans		4,589	1,200
		74,073	89,076

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

		As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Net current (liabilities)/assets		(1,480)	8,235
Total assets less current liabilities		169,834	231,559
Non-current liabilities			
Other payables	16	24,280	33,822
Bank loans		16,880	9,900
Lease liabilities	13	72,558	105,386
Convertible loans		8,878	8,880
Convertible promissory notes		17,526	17,344
Amounts due to non-controlling interests		14,931	14,165
Provision for reinstatement costs		1,565	1,565
Derivative financial liabilities		21	21
		156,639	191,083
Net assets		13,195	40,476
Equity			
Share capital		18,000	18,000
Reserves		8,402	30,466
Equity attributable to owners of the Company		26,402	48,466
Non-controlling interests		(13,207)	(7,990)
Total equity		13,195	40,476

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2020

	Attributable to owners of the Company							Attributable to non-controlling interests	Total	
	Share capital	Share premium	Share-based compensation losses	Legal reserve	Exchange reserve	Accumulated losses	Other reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
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	-	-	-	-	-	(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
Profit/(loss) for the period	-	-	-	-	-	962	-	962	926	1,888
Other comprehensive income/(loss) for the period	-	-	-	-	237	-	-	237	-	237
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	207	207
Equity-settled share option arrangement	-	-	221	-	-	-	-	221	-	221
Restated balance as at 30 June 2019	18,000	66,235	599	12	85	(5,009)	-	79,922	865	80,787
As at 1 January 2020	18,000	66,235	756	12	(25)	(36,604)	92	48,466	(7,990)	40,476
Profit/(loss) for the period	-	-	-	-	-	(22,136)	-	(22,136)	(5,217)	(27,353)
Other comprehensive loss for the Period	-	-	-	-	(15)	-	-	(15)	-	(15)
Equity-settled share option arrangement	-	-	87	-	-	-	-	87	-	87
As at 30 June 2020	18,000	66,235	843	12	(40)	(58,740)	92	26,402	(13,207)	13,195

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six-month period ended 30 June 2020 HK\$'000 (Unaudited)	Six-month period ended 30 June 2019 HK\$'000 (Unaudited)
Net cash (used in)/generated from operating activities	(16,594)	669
Net cash used in investing activities	(148)	(21,888)
Net cash generated from financing activity	10,476	9,558
Net decrease in cash and cash equivalents	(6,266)	(11,661)
Cash and cash equivalents at the beginning of the period	23,311	41,032
Effect of foreign exchange rate	13	237
Cash and cash equivalents at the end of the period	17,058	29,608
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	17,058	29,608

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial information of the Group has not been audited. The unaudited condensed consolidated interim financial statements of the Group for the six-month period ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated interim financial information should be read in conjunction with the audited annual financial statements included in the annual report of the Company dated 8 May 2020. The accounting policies adopted are consistent with those applied in the Group's audited annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), except the new and revised HKFRSs, which are effective for the financial year beginning from 1 January 2020. The adoption of these new and revised HKFRSs has not had material impact on the unaudited condensed consolidated interim financial information. The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but not yet effective.

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

2. 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. A single management team reports to the chief operating decision makers who comprehensively manages such entire business segment. Accordingly, the Group does not have separately reportable segments.

Information about geographical areas

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

	For the six-month period ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Macau	10,471	59,382
Hong Kong	29,047	41,896
The PRC	15,320	167
	54,838	101,445

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

	As at 30 June 2020	As at 31 December 2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Macau	44,085	48,154
Hong Kong	60,608	102,255
The PRC	65,844	72,138
The US	777	777
	171,314	223,324

Information about major customers

During the period, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue (2019: Nil).

3. 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 period is as follows:

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue from contracts with customers:				
<i>Recognised at a point in time</i>				
Sales of food, and other products	12,435	19,479	25,776	38,069
Sales of beverage	17,070	31,257	28,095	54,879
Sponsorship income	–	2,587	299	4,809
Entrance fees income	–	1,924	233	3,027
Others (Note)	156	169	186	390
	29,661	55,416	54,589	101,174
Revenue from other sources:				
Loan interest income	113	136	249	271
	29,774	55,552	54,838	101,445

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

4. OTHER INCOME AND GAIN

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net foreign exchange gain	6	299	26	543
Reversal of allowance for credit losses of account receivables	144	–	144	–
Reversal of allowance for credit losses of deposits	11	–	11	–
Reversal of allowance for credit losses of loan receivables	9	–	9	–
Management fee income	240	–	240	–
Rental concession	1,720	–	1,720	–
Government Subsidies under the Food Licence Holders Subsidy Scheme and the Catering Business (Social Distancing) Subsidy Scheme	2,921	–	3,521	–
Gain on termination of lease agreement of subsidiary	46	–	46	–
Consultancy fee income	590	665	1,258	1,364
Others (Note)	246	315	391	487
	5,933	1,279	7,366	2,394

Note: Others mainly included the tips income.

5. INCOME TAX EXPENSES

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Income tax expenses				
— Macau Complementary Tax	–	567	–	585

- (i) Macau Complementary Tax is calculated at 12% of the assessable profit for the six-month period ended 30 June 2020 after deducting the exempted amount of MOP600,000. Under the Macau Complementary Tax, for the years of assessment 2020 and 2019, the taxable profits up to MOP600,000 were exempted.

No provision for Hong Kong profits tax is made since the Hong Kong subsidiary has no estimated assessable profit for the three-month and six-month periods ended 30 June 2020 and 2019, respectively.

5. INCOME TAX EXPENSES *(Continued)*

- (ii) In June 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 and HK\$0.8 million for the year of assessment ended 31 December 2013 and 2014 respectively 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.

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

In April 2018, 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. 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 and in the same ground, will bear the relevant additional tax in case the Macau FSB also disallows the deductibility of the contingent rentals for the years of assessment ended 31 December 2015 to 2019 estimated to be approximately HK\$3.4 million in aggregate. Accordingly, no provisions have been made in respect of the above tax dispute with the Macau FSB.

In July 2019, the Macau subsidiary received the ruling from the Administrative Court for the year of assessment ended 31 December 2013 and 2014. The court ruled in our favour and order to cancel the assessment of the profitable income for year 2013 but not for that of year 2014 and ordered the decision of collecting the additional tax made by the Macau FSB shall be maintained. The Macau subsidiary and Macau FSB had filed second appeal to the Administrative Court respectively and waiting for the final judgement in this regard.

In June 2020, the Macau subsidiary received tax reassessment from the Macau FSB demanded the Macau subsidiary to pay an additional income tax of approximately HK\$1.7 million for the year of assessment ended 31 December 2015 and 2016 in the same reason. The owner of the club premises had made the aforesaid tax payment while the Macau subsidiary will proceed to file an objection to Macau FSB and demand a tax review for this.

6. (LOSS)/EARNINGS PER SHARE

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

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(Loss)/earnings for the purpose of basic and diluted (losses)/ earnings per share	(9,426)	1,213	(22,136)	962
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,800,000	1,800,000	1,800,000	1,800,000
Effect of dilutive potential ordinary shares:				
— Share option (Note)	—	238	—	238
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	1,800,000	1,800,238	1,800,000	1,800,238

Note: The diluted loss per share for the six-month period ended 30 June 2020 and 2019 was calculated by adjusting the loss for the period 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 six-month period ended 30 June 2020. The amount of diluted loss per share is same as the basic loss per share as the effect is antidilutive.

7. DISPOSAL OF SUBSIDIARY

During the period ended 30 June 2020, the Company disposed a wholly-owned subsidiary, Luk Hing Mandarin Limited which is principally engaged in operating the Company's new restaurant, namely "GaGiNang" in Harbour City, Hong Kong. The Company maintains 23.33% effective equity interest in Luk Hing Mandarin Limited which became an associate of the Company after the disposal.

Net liabilities of the subsidiary being disposed of at the date of disposal were as follows:

	HK\$'000
Property, plant and equipment	13,054
Right-of-use assets	25,828
Inventories	29
Account and other receivables	2,912
Cash and cash equivalents	928
Account and other payables	(23,917)
Lease liability	(28,548)
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Net liabilities discharged	(9,714)
Total consideration	–
Gain on disposal of subsidiary	9,714
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Net cash flow arising from disposal	
Cash and cash equivalent disposed of	(928)
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8. FINANCE COSTS

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on convertible promissory notes	498	-	996	-
Interest on convertible loans	202	-	405	-
Interest on bank loans	99	-	194	-
Interest on bank overdrafts	76	34	149	34
Interest on lease liabilities	1,335	-	3,058	-
Others	47	-	56	-
	2,257	34	4,858	34

9. DIVIDEND

The Board does not recommend the payment of an interim dividend by the Company for the six-month period ended 30 June 2020.

10. PLANT AND EQUIPMENTS

The Group acquired items of plant and equipment with cost amounting to HK\$148,000 and HK\$20,950,000 during the six-month period ended 30 June 2020 and 2019, respectively. An amount of HK\$523,400 of plant and equipment was impaired due to the termination of lease agreement of a subsidiary during the six-month period ended 30 June 2020. No items of plant and equipment were disposed during the six-month period ended 30 June 2020 and 2019, respectively.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Life insurance policy	6,061	6,061

Included in the balance as at 30 June 2020 is the life insurance policy which the Group entered into with an insurance company in October 2019 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").

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Unlisted equity investment	2,758	2,798

Included in the balance as at 30 June 2020 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. The remaining balance represents an investment in convertible preferred stock of an oversea entity.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

These investment is 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.

13. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Right-of-use assets

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
As at 1 January	110,906	20,297
Acquisition of subsidiaries	–	20,721
Addition during the period/year	–	84,881
Disposal of subsidiary	(25,828)	–
Termination of lease agreement of subsidiary	(1,262)	–
Depreciation provided during the period	(10,727)	(14,598)
Exchange alignment	(358)	(395)
	72,731	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.

As at 30 June 2020 and 31 December 2019, none of the Group's right-of-use assets have been pledged to secure banking facilities granted to the Group.

13. RIGHT-OF-USE ASSETS/LEASE LIABILITIES (Continued)

Lease liabilities

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Analysed as		
— Current	15,591	23,011
— Non-current	72,558	105,386
	88,149	128,397
Minimum lease payments due		
Within one year	20,231	29,852
More than one year but not later than two years	19,574	27,309
More than two year but not later than five years	39,557	63,434
Over five years	27,633	34,225
	106,995	154,820
Less: Future finance charges	(18,846)	(26,423)
Present value of lease liabilities	88,149	128,397
Maturity analysis:		
Within one year	15,591	22,256
More than one year but not later than two years	15,498	21,565
More than two year but not later than five years	31,487	52,630
Over five years	25,573	31,946
	88,149	128,397

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Company's treasury function.

14. ACCOUNT AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Account receivables	4,530	8,916
Less: allowance for credit losses	(784)	(928)
	3,746	7,988
Sponsorship receivables	1,303	3,664
Less: allowance for credit losses	(34)	(34)
	1,269	3,630
Other receivables	7,598	8,732
Less: allowance for credit losses	(169)	(169)
	7,429	8,563
Prepayments	10,083	11,346
Deposits	16,106	32,840
Less: allowance for credit losses	(157)	(337)
	15,949	32,503
	38,476	64,030
Portion classified as non-current		
— Deposits	(4,697)	(8,136)
	33,779	55,894

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.

14. ACCOUNT AND OTHER RECEIVABLES (Continued)

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
0 to 30 days	1,669	4,996
31 to 60 days	159	1,394
61 to 90 days	7	698
91 to 120 days	89	564
Over 120 days	1,822	336
	3,746	7,988

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
As at 1 January	928	794
Allowance for credit losses recognised during the period/year	–	134
Reversal of allowance for credit losses	(144)	–
	784	928

14. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

Movement in the accumulated allowance for credit losses of sponsorship receivables

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
As at 1 January	34	43
Reversal of allowance for credit losses	–	(9)
	34	34

Movement in the accumulated allowance for credit losses of other receivables

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
As at 1 January	169	21
Allowance for credit losses recognised during the period/year	–	148
	169	169

14. ACCOUNT AND OTHER RECEIVABLES (Continued)

Movement in the accumulated allowance for credit losses of deposits

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
As at 1 January	337	–
Allowance for credit losses recognised during the period/year	–	337
Reversal of allowance for credit losses	(11)	–
Disposal of Subsidiary	(169)	–
	157	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.

As at 30 June 2020, the Group's prepayments mainly represents prepayments for performance fee of featured events of approximately HK\$7,630,000 (2019: HK\$2,300,000) and prepayments for legal and professional fees of approximately HK\$584,000 (2019: HK\$1,667,000). As at 30 June 2020, the Group's deposits mainly represents deposits for acquisition of plant and equipment and decoration of approximately HK\$8,967,000 (2019: HK\$27,234,000), rental deposits of approximately HK\$5,378,000 (2019: HK\$9,152,000), and deposits for holding featured events of approximately HK\$193,000 (2019: HK\$193,000). As at 30 June 2020, the amounts of the Group's other receivables mainly represents value added tax recoverable from Club Cubic Zhuhai of approximately HK\$4,299,000 (2019: HK\$3,836,000).

15. 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\$4,750,000 were carrying interest at 5.25% to 10% per annum. The loan receivables were recoverable according to repayment schedules, normally with contractual maturity within one year as at 30 June 2020 and 31 December 2019.

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Loan receivables, gross	4,750	5,450
Less: allowance for credit losses	(41)	(50)
Loan receivables, net	4,709	5,400

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 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within one year	4,709	5,400

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

15. LOAN RECEIVABLES *(Continued)*

Movement in the accumulated allowance for credit losses of loan receivables

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
As at 1 January	50	264
Reversal of allowance for credit losses	(9)	(214)
	41	50

16. ACCOUNT AND OTHER PAYABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Account payables	11,701	10,259
Rental payables	8,928	6,797
Other payables	43,484	62,467
Accruals	10,789	12,822
	74,902	92,345
Portion classified as non-current — Other payables (Note (i))	(24,280)	(33,822)
Current portion	50,622	58,523

Note:

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

16. ACCOUNT AND OTHER PAYABLES (Continued)

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

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
0 to 30 days	2,238	6,166
31 to 60 days	3,599	2,257
61 to 90 days	636	933
91 to 120 days	3,162	903
Over 120 days	2,066	–
	11,701	10,259

17. 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).

On 26 June 2020, the Board of the Company further announced to hold up the renovation of Club Cubic Macau in view of the social instability in Hong Kong since June 2019 and the outbreak of coronavirus disease (“COVID-19”) pandemic since January 2020, which have severely hit the market situation of Macau and the continuous impact on the economic outlook remains uncertain, the Board is of the view that the current priority of the Company should be to preserve cash and focus on its existing operations. (Please refer to the Company’s announcement dated 26 June 2020 for details.)

17. CAPITAL COMMITMENTS *(Continued)*

As at 30 June 2020 and 31 December 2019, the amount authorized but not contracted for was nil and approximately HK\$10.6 million respectively. 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 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Plant and equipments	–	1,052

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Unpaid balance of capital contribution to a subsidiaries in the PRC	39,484	40,175

18. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the unaudited condensed consolidated interim 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:

	For the six-month period ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Salaries and other short term employee benefits	1,284	1,325
Retirement scheme contributions	25	18
	1,309	1,343

(b) Other related party transactions:

Related parties	Nature of transactions	For the six-month period ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Zone One (CS) Limited (Note i)	Rental expenses	720	720
Xin Limited (Note ii)	Loan interest income	24	50
	Marketing expenses	-	65
Choi Siu Kit (Note iii)	Loan interest expenses	24	-

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

- (c) The following table discloses the loan advanced to a related party for the period ended 30 June 2020 and 2019:

Name	Maximum amount outstanding during the period	As at 30 June 2020	Maximum amount outstanding during the prior period	As at 30 June 2019	Security held
	HK\$'000 (Unaudited)	HK'000 (Unaudited)	HK\$'000 (Unaudited)	HK'000 (Unaudited)	
Xin Limited (Note ii)	1,000	-	1,000	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.
- ii. Xin Limited is the subsidiary of Star Century Investments Limited. The executive Director, Mr. Choi Siu Kit, is also the director of Xin Limited.
- iii. Mr. Choi Siu Kit is the executive Director.

19. CONTINGENT LIABILITIES

Saved as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group did not have any other significant contingent liabilities as at 30 June 2020 and 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2020, the Group continued to engage in the operation of clubbing business including “Club Cubic Macau” and “CUBIC SPACE+” and the operation of our restaurants “HEXA” and “SIXA”. On top of these, we have a newly operated restaurant in Harbour City, commenced business operation in Feb 2020, which the Group owned effective equity interest of 23.33%.

BUSINESS REVIEW

In the first half of 2020, Hong Kong Retail and Catering Industry faced an unprecedented challenge posed by the outbreak of Coronavirus disease (“COVID-19”) Pandemic in late January of this year. Severe travel restrictions, temporary business suspension and other prohibitions imposed by the PRC, Macau and other countries, has significantly disrupted the Group’s operations.

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 operation of CUBIC SPACE+ in Zhuhai City of the PRC which the Group holds effective equity interests of 62.22%.

The Company had temporarily suspended the operation of Club Cubic Macau from 5 February 2020, following all the casinos in Macau closed for two weeks to help control the spread of COVID-19. Club Cubic Macau resumed operation on 5 March 2020. However, in March 2020, the Macau government, the Hong Kong government and several provinces in PRC including Guangdong, imposed entry bans, restriction and quarantine requirements on nearly all visitors traveling to and from Macau, which had severely affected the operation of Club Cubic Macau.

Our CUBIC SPACE+ in Zhuhai was required to suspend its operation since 25 January 2020 to cooperate with the emergency public health policy according to the PRC government policy. It was re-opened on 6 May 2020 and operation gradually resumed normal.

Operation of Restaurant Business

Retail sales in Hong Kong plunged 37% year-on-year in May 2020 according to the figures revealed by the Census and Statistics Department. The decline narrowed further from that in April attributed to the stabilized local epidemic situation and consequential easing of social distancing measures.

Our restaurants HEXA and SIXA were inevitably hit by the COVID-19 crisis. The situation was even worse after the ban on groups of more than four people and required restaurants to limit the number of diners at each table to four with table 1.5 meters apart, starting on night of 28 March 2020, with then restaurants can only be allowed to operate at half capacity. Fortunately, we saw sharp rebound in sales after relaxing of some COVID-19 social distancing measures, allowing groups of up to eight people to gather in restaurants starting from 8 May 2020.

Notwithstanding the inherent encumbrance in the period, we had our third restaurant namely “GaGiNang” located in Harbour City unveiled in February 2020 after half year’s preparation work. GaGiNang is a premium Chiu Chow style twisted with contemporary cuisine elements. As the Group’s strategy to prioritize sustainability and preserve capital in times like these, the Group’s wholly-owned subsidiary, Luk Hing Mandarin Limited which is principally engaged in operating Gaginang has allotted and issued new shares to subscribers, resulting in a deemed disposal of the Company. The Company maintains 23.33% effective equity interest on Luk Hing Mandarin which has become an associate of the Company after the deemed disposal. Please refer to the announcement of the Company dated 30 March 2020 for details of the deemed disposal.

Though we observed obvious rebound in sales performance of the Group’s business particularly in May, thanks to the stabilized local epidemic situation and the relaxing of social distancing measures, the Group’s overall performance of the clubbing and restaurant business during the reporting period had been significantly impacted by the outbreak of COVID-19. As the business environment for retail and catering remains difficult amid austere labour market conditions and the travel restrictions remain in place, the Company had terminated the lease agreement of our roast-goosed outlet, “Lung Fung Yuen” (formerly named as Oh-My-Goose”) in June 2020 and held up the renovation of Club Cubic Macau. The Group will continue to adopt stringent control measures such as salary saving scheme and temporary suspension of marketing and traveling expenses to minimize operating costs, along with strategy to preserve cash position through deferral of capital expenditures investment. Such measures will position us in the best of financial and operational health to counter the challenges posed by COVID-19.

FINANCIAL REVIEW

Revenue

Total revenue of the Group decreased by 46% from HK\$101.4 million in the first half of 2019 to HK\$54.8 million in the same period of 2020. The negative impact from the outbreak of COVID-19 caused: (i) 82% drop of revenue in Club Cubic Macau from HK\$59.3 million to HK\$10.4 million; and (ii) 41% drop in revenue of HEXA from HK\$38.7 million to HK\$22.8 million; (iii) partially offset by the total revenue of HK\$20.5 million contributed by the newly operated CUBIC SPACE+, SIXA and GaGiNang.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It decreased by 28% from HK\$22.9 million in the first half of 2019 to HK\$16.4 million in the same period 2020. Cost of inventories of Club Cubic Macau and HEXA decreased in line with the drop of sales revenue; partially offset by the cost of inventories from our newly operated CUBIC SPACE+, SIXA and GaGiNang.

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 decreased by 19% from HK\$30.7 million in the first half of 2019 to HK\$24.9 million in the first half of 2020. Additional staff costs incurred for the newly operated CUBIC SPACE+, SIXA and GaGiNang in the first half of 2020 which were nil in the same period of 2019, offset the effect of 48% and 28% decrease in salary costs of Club Cubic Macau and HEXA resulted from cost cutting measures in the first half of 2020.

Property rentals and related expenses decreased by 10% from HK\$5.6 million in the first half of 2019 to HK\$5.1 million in the first half of 2020. Decrease in contingent rentals of Club Cubic Macau and HEXA due to drop of sales revenue partially offset by the additional property rentals and related expenses incurred by our newly operated CUBIC SPACE+, SIXA and GaGiNang in the first half of 2020 which were nil in the same period of 2019.

Depreciation and Amortization increased by 113% from HK\$9.7 million in the first half of 2019 to HK\$20.7 million in the first half of 2020. This was mainly attributed to the depreciation of CapEx and amortization of right-of-use assets from our newly operated CUBIC SPACE+, SIXA and GaGiNang in the first quarter of 2020 which were nil in the same period of 2019.

Advertising and marketing expenses decreased substantially by 80% from HK\$9.8 million in the first half of 2019 to HK\$1.9 million in the first half of 2020 due to the adoption of cost control measure on temporary suspension of marketing expense from February 2020 to cope with the impact of COVID-19.

Other operating expenses increased by 11% from HK\$22.6 million in the first half of 2019 to HK\$25.2 million in the first half of 2020. Additional other operating expenses incurred for the newly operated CUBIC SPACE+, SIXA and GaGiNang in the first quarter of 2020 which were nil in the same period of 2019, offset the effect of the 60% drop of other operating expenses resulted from the cost cutting measures in Club Cubic Macau and HEXA in the first half of 2020.

Loss Attributable to Owners of the Company

Our loss attributable to owners of the Company was approximately HK\$22.1 million in the first half of 2020 compared to profit attributable to owners of the Company of approximately HK\$1 million in the first half of 2019. In connection with the outbreak of COVID-19, the temporary suspension of operation of Club Cubic Macau and CUBIC SPACE+, and the mandatory policy such as social distancing had significantly disrupted the operations of our clubbing and restaurant business. The dramatic drop of revenue incomes from the operations led to the substantial loss of the operating units despite the positive impact of net gain of HK\$9.7 million from the deemed disposal transaction of GaGiNang.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Below is a summary of the key financial ratio:

	Notes	As at 30 June 2020	As at 31 December 2019
Current ratio	1	1.0	1.1
Quick ratio	2	0.9	1.0
Debt-to-asset ratio	3	94.6%	87.4%

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

During the period under review, the Group financed its operations and investment activities mainly through a combination of (i) operating cash inflows; and (ii) interest-bearing bank borrowings.

As at 30 June 2020, the cash and cash equivalents of the Group amounted to HK\$17.1 million (31 December 2019: HK\$23.3 million). Total bank loans were approximately HK\$21.5 million (31 December 2019: HK\$11.1 million) and loans from investors were approximately HK\$26.4 million which mainly came from:

- (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 CUBIC SPACE+ 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 CUBIC SPACE+;
- (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 CUBIC SPACE+ on 23 August 2019. The Proceeds were used by the Group as the additional investment in Zhuhai JV Company;
- (iii) 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;
- (iv) bank loan of HK\$4 million for HEXA and HK\$3.4 million for SIXA from the 100% Loan Guarantee under the SME Financing Guarantee Scheme in June 2020;
- (v) change of HK\$3 million from the bank overdraft facility to term loan of 3 years in June 2020.

Apart from that, the Group has outstanding amount of HK\$2.9 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.

CHARGES ON ASSETS

As at 30 June 2020, 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.

FURTHER CHANGE IN USE OF PROCEEDS

As disclosed in the 2019 Annual Report, the unutilized Net Proceeds as at 31 December 2019 amounted to approximately HK\$13.9 million (the "unutilized Net Proceeds"). On 30 June 2020, the Board has resolved to further change the use of the remaining unutilized Net Proceeds as follows:

	Revised intended use of Net Proceeds as stated in the 2019 Announcement (HK\$ million)	Unutilized Net Proceeds as at 31 December 2019 (HK\$ million)	Proposed Change in use of unutilized Net Proceeds (HK\$ million)	Unutilized Net Proceeds as at 30 June 2020 (HK\$ million)
Expansion in regions other than Macau	6.2	2.2	-	-
Renovation of Club Cubic Macau	20	11.7	-	-
Working capital and general corporate use	-	-	13.9	13.9
Total	26.2	13.9	13.9	13.9

REASONS FOR CHANGE IN USE OF PROCEEDS

In view of the social instability in Hong Kong since June 2019; and the outbreak of COVID-19 since January 2020, the economy and the market situations of Macau and Hong Kong have been severely hit and the continuous impact on the economic outlook remains uncertain. The Board is of the view that the current priority should be to focus on its existing operations and strengthen its position in the market which would require more working capital to provide stronger support for the frontline operations.

The Group therefore weighed up the costs and benefits and considered to adopt a prudent approach of holding up the capital investments including the renovation of Club Cubic Macau and the establishment of Club Cubic Guangzhou. The unutilized net proceeds of approximately HK\$13.9 million will be reallocated to the general working capital of the Group. The Board is of the view that the use of proceeds is appropriately adjusted to better meet the current economic climate and is more beneficial to the Group's operational needs in combatting the challenges brought by the COVID-19 pandemic. As at 30 June 2020, the Group has utilized approximately HK\$4.0 million for the establishment of Club Cubic Guangzhou, which is mainly for the rental deposit and renovation deposit of the venue. The Group is in negotiation with the strategic partner to take up the project and refund the paid deposits to the Group. (Please refer to the announcement of the Company dated 26 June 2020. In relation to the further change in use of proceeds and announcement of the Company dated 26 June 2020 in relation to lapse of major transactions in relation to (i) issuance of 2nd Tranche Convertible Promissory Notes and (ii) investment in Guangzhou JV Company)

FOREIGN EXCHANGE EXPOSURE

During the period under review, 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.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Saved for those disclosed in this interim report, the Group did not have any other contingent liabilities or capital commitment as at 30 June 2020.

SIGNIFICANT INVESTMENTS HELD

Save for those disclosed in this interim report, there was no other significant investment held by the Group as at 30 June 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed under the note headed "Disposal of Subsidiary" in this interim report, the Group did not have any other material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICY

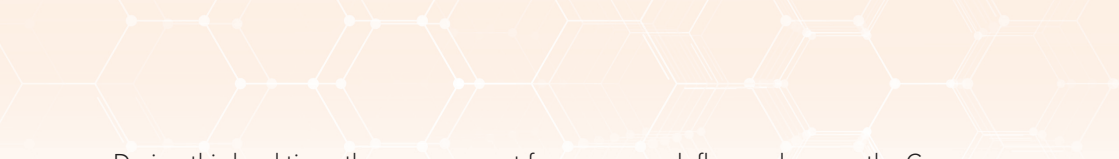
The Group had a total of 435 employees as at 30 June 2020 (2019: 323 employees). Remuneration is determined with reference to market terms and the performance, qualifications and experience of the individual employee. We actively refine our staff structure by adopting the human resources philosophy of “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.

OUTLOOK

In the first half of 2020, the coronavirus disease (“COVID-19”) pandemic had dealt a heavy blow to the clubbing industry and catering industry around the world. The Group’s business was also subject to unprecedented challenges in the midst of COVID-19 pandemic. The Group’s results were materially affected and recorded a loss.

During the reporting period, our Club Cubic Macau and CUBIC SPACE+ (which locate in Zhuhai) was temporarily suspended from operation following the local government’s guideline. Although the clubbing business was finally allowed to reopen, the management did not expect the turnover can be fully recovered at this stage due to the travel restrictions imposed by the local government on tourists. At this difficult moment, it is of utmost importance for the Group to remain committed to retaining repeat customers and attracting new customers under our own brands.

The restaurant business of HEXA and SIXA was seriously affected after the outbreak of COVID-19. The sales dropped seriously in the first quarter of 2020 and gradually resumed in the second quarter because the local transmission numbers had come down. Unfortunately, Hong Kong’s third wave of infections has returned with massive local outbreak in early July. The government has further tightened the anti-epidemic measures, restaurants are not allowed to offer dine-in services. The catering business environment further worsens. The management is looking for innovative new ways to adapt to the changes, including differentiated delivery options, special delivery menu, etc.



During this hard time, the management focuses on cash flow and ensure the Company has sufficient cash for all the existing operations. In March 2020, the Company reduced its effective interest in Luk Hing Mandarin Limited (engaged in operating the Company's new restaurant, namely "GaGiNang" in Harbour City, Hong Kong) in order to reduce the financial pressure. During the reporting period, the Company also held up the renovation of Club Cubic Macau and terminated the Club Cubic Guangzhou project in order to retain more working capital to provide stronger support for the frontline operations.

The full impact of this epidemic on business is still unknown, the Company will continue to adopt prudent and risk balancing management approaches in the coming year. In closing, I would like to give my heartfelt thanks to all our landlords and suppliers for their generous assistance during this challenging time.

Choi Yiu Ying

Chairman and Chief Executive Officer

Hong Kong, 13 August 2020

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

As at 30 June 2020, 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
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	1,262.225 ordinary shares of Welmen (L)	12.62225%
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	1,262.225 ordinary shares of Welmen (L)	12.62225%

Name of Director/Chief Executive	Name of Group member/associated corporation	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest
Mr. Yeung Chi Shing (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,234.44 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%
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). On 4 June 2020, Mr. Choi Kuen Kwan sold 50% and 50% of his shares in Welmen to Mr. Choi Yiu Ying and Mr. Choi Siu Kit respectively. 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 and Mr. Yeung Chi Shing is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (3) Welmen is owned as to 30.3111% by Yui Tak Investment Limited ("Yui Tak") and Yui Tak is wholly owned by Ocean Concept Holdings Limited ("Ocean Concept"). Ocean Concept is owned as to 88.29% by Toprich Investment (Group) Limited ("Toprich") and Toprich is wholly owned by Perfect Succeed Limited ("Perfect Succeed"), which is in turn owned as to 50% by Mr. Choi Yiu Ying and as to 50% by Mr. Choi Siu Kit. By virtue of the SFO, each of Mr. Choi Yiu Ying and Mr. Choi Siu Kit is deemed to be interested in 30.3111% of the issued share capital of Welmen held by Yui Tak and 60.75% of the issued share capital of the Company held by Welmen.

Save as disclosed above and so far as is known to the Directors, as at 30 June 2020, 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 30 June 2020, the person (other than the Directors or the Company's chief executives) or company who or which had an interest and short position in the shares and underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number and class of securities⁽¹⁾	Approximate percentage of shareholding interest
Welmen	Beneficial owner	1,093,500,000 ordinary shares (L)	60.75%
Yui Tak (Note 2)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Ocean Concept (Note 2)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Toprich (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Perfect Succeed (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Kenbridge Limited ("Kenbridge")	Beneficial owner	121,500,000 ordinary shares (L)	6.75%

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest
Mr. Poon Ching Tong Tommy (Note 4)	Interest of a controlled corporation	121,500,000 ordinary shares (L)	6.75%
Ms. Chan Ting Fai (Note 5)	Interest of spouse	1,093,500,000 ordinary shares (L)	60.75%
Ms. Lee Wan (Note 6)	Interest of spouse	1,093,500,000 ordinary shares (L)	60.75%
Ms. Lau Sze Mun Charmaine (Note 7)	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) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) Ms. Lau Sze Mun Charmaine is the spouse of Mr. Poon Ching Tong Tommy. By virtue of the SFO, Ms. Lau Sze Mun Charmaine is deemed to be interested in 6.75% of the issued share capital of the Company in which Mr. Poon Ching Tong Tommy is interested.

Save as disclosed above and so far as is known to the Directors, as at 30 June 2020, no other interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six-month period ended 30 June 2020.

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 six-month period ended 30 June 2020:

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 six-month period ended 30 June 2020:

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 six-month period ended 30 June 2020, 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.

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 the latest 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 six-month period ended 30 June 2020 are set out as follows:

Category/ Name of Grantee	Date of Grant	Exercise Date/ Period	Exercise Price Per Share	Number of share options				Outstanding as at 30 June 2020
				Outstanding as at 1 January 2020	Granted during the period	Exercised during the period	Lapsed during the period	
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:

- 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.
- 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.
- 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.
- 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.

CORPORATE GOVERNANCE PRACTICES

The Group recognises 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 and chief executive officer 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.

Other information on the corporate governance practices of the Company has been disclosed in the corporate governance report contained in the 2019 Annual Report.

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 during the six months ended 30 June 2020.

DIVIDEND

The Board has resolved not to declare the payment of a dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraph C.3.3 and C.3.7 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The audit committee consists of two independent non-executive Directors being Mr. Chan Ka Yin and Mr. Tang Tsz Tung and one non-executive Director, Mr. Au Wai Pong Eric. Mr. Chan Ka Yin serves as the chairman of the audit committee. The primary responsibilities of the audit committee include but without limitation the following: (i) assisting the Board in providing an independent view of the effectiveness of our Group's financial reporting process, internal control and risk management systems; (ii) overseeing the audit process; and (iii) performing other duties and responsibilities as assigned by the Board.

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six-month period ended 30 June 2020.

CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2019 Annual Report are set out below:

Mr. Chan Ting Bond Michael

- Resigned as Independent Non-executive Director of the Company with effect from 1 July 2020.
- The Company granted a bonus of HK\$120,000 to Mr. Chan Ting Bond Michael on 30 June 2020.

Mr. Lam Wai Chin Raymond

- Resigned as Independent Non-executive Director of the Company with effect from 1 July 2020.
- The Company granted a bonus of HK\$120,000 to Mr. Lam Wai Chin Raymond on 30 June 2020.

BOARD OF DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

Mr. Au Wai Pong Eric
Mr. Au Ka Wai
Ms. Poon Kam Yee Odilia

Independent non-executive Directors:

Mr. Chan Ka Yin
Mr. Tang Tsz Tung
Mr. Tse Kar Ho Simon

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

Hong Kong, 13 August 2020