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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

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 2020.

2020 was the most difficult year for the Company since its listing. The outbreak of the coronavirus disease 2019 (“COVID-19”) around the world since December 2019 had a material adverse effect on our operating results throughout the year. As a result of travel restriction and social distancing measures policy imposed by the Mainland China, Hong Kong and Macau, the overall performance of the Company recorded a significant decline as compared to last year.

BUSINESS ENVIRONMENT AND DEVELOPMENT

Clubbing Business

In the first half of 2020, our Club Cubic Macau was temporarily suspended from operation following the Macau government’s guideline. Club Cubic Macau was finally allowed to reopen since March 2020. However, the Macau government’s policy on travel restriction led to reduced number of visitors from Mainland China and other countries which directly impacted Club Cubic Macau’s turnover and it suffered a great loss. Macau maintained a relatively low COVID-19 infraction record for a long period and its government is in well positioned to attract Mainland China and international visitors back and to support its economic recovery. The management hoped that Club Cubic Macau would be benefited and its results could return to normal.

Mainland China has a scientifically proven epidemic prevention and control system. It achieved a rapid economic rebound and benefited our CUBIC SPACE+ (which locate in Zhuhai). CUBIC SPACE+ also temporarily suspended its operation in the first quarter of 2020 and re-opened thereafter. The turnover of CUBIC SPACE+ is recovering gradually. The management will continue to bring new policy to retain existing customers, acquire new customers and boost their spending.

The management understands that geographical diversification is a way of reducing portfolio risk by avoiding excessive concentration in any one market. So, expanding the clubbing business to the Pearl River Delta is one of the Company’s major strategies. In 2019, the Company cooperated with new business partners and set up CUBIC SPACE+. During the outbreak of COVID-19, the Company experienced the advantage of geographical diversification and will continue to find new investment opportunities in this trend.

Restaurant Business

The first wave of COVID-19 in Hong Kong started in January 2020 and Hong Kong is now facing the fourth wave. Compared with Mainland China and Macau, Hong Kong's COVID-19 has not been controlled effectively. The non-stopped public gathering restriction policy affects our restaurant businesses deeply.

The businesses of HEXA and SIXA were seriously affected after the outbreak of COVID-19. Due to no tourists and the dine-in restriction policy, our fine-dining restaurants had been hit hard. With dining restrictions, our restaurants have curated different tempting menus that are available for delivery and pick-up. In order to reduce the financial pressure, 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 March 2020.

To ensure the health and safety of our customers, we put a lot of effort to keep the restaurants clean and hygiene in the age of COVID-19. We also strictly comply with the COVID-19 preventive policy and hope the outbreak of COVID-19 could soon be under control.

OUTLOOK

The outlook for 2021 is full of uncertainties. It depends on the abatement of COVID-19 in Hong Kong and also the world around. We noted Mainland China's economic recovery in 2020. We expected that Macau's economic recovery will be followed because of its effective COVID-19 prevention and control policy. Hong Kong has begun mass COVID-19 vaccination programme in February 2021. We hope that Hong Kong can bring COVID-19 under control in the near future and all its economic activities can soon be back to normal.

In the coming months, we will do our best to look after our existing business, continue to focus on effective cost control financial management policy and prudently look into growth opportunities when economy recovers.

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, 23 March 2021

ANNUAL RESULTS

The board (the “Board”) of Directors of Luk Hing Entertainment Group Holdings Limited (the “Company”) is pleased to announce the following audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020, together with the comparative figures for the preceding year ended 31 December 2019:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Revenue	4	158,373	225,403
Other income and gain	5	18,731	4,934
Cost of inventories sold		(44,750)	(53,900)
Staff costs		(79,896)	(77,449)
Property rentals and related expenses		(12,023)	(15,524)
Advertising and marketing expenses		(2,954)	(31,378)
Other operating expenses		(35,920)	(63,888)
Depreciation and amortisation		(38,381)	(25,748)
Impairment losses under expected credit loss model, net of reversal		502	(396)
Fair value change of financial assets at fair value through profit or loss		(245)	61
Fair value change of derivative financial liabilities		(420)	1,116
Gain on deemed disposal of a subsidiary	15	9,714	–
Share of loss of an associate		(1,989)	–
Finance costs	6	(9,370)	(5,375)
Loss before taxation	8	(38,628)	(42,144)
Taxation	7	291	(627)
Loss for the year		(38,337)	(42,771)
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss:			
Exchange difference on translating of financial statements of overseas subsidiaries		677	79
Items that will not be reclassified to profit or loss:			
Fair value loss on financial assets at fair value through other comprehensive income		(955)	–
Other comprehensive (loss)/income for the year		(278)	79
Total comprehensive loss for the year		(38,615)	(42,692)

		Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Loss for the year attributable to:			
Owners of the Company		(31,759)	(30,633)
Non-controlling interests		<u>(6,578)</u>	<u>(12,138)</u>
		<u>(38,337)</u>	<u>(42,771)</u>
Other comprehensive (loss)/income for the year attributable to:			
Owners of the Company		(387)	127
Non-controlling interests		<u>109</u>	<u>(48)</u>
		<u>(278)</u>	<u>79</u>
Total comprehensive loss for the year attributable to:			
Owners of the Company		(32,146)	(30,506)
Non-controlling interests		<u>(6,469)</u>	<u>(12,186)</u>
		<u>(38,615)</u>	<u>(42,692)</u>
Loss per share (in HK cents)			
— Basic	<i>10</i>	(1.76)	(1.70)
— Diluted	<i>10</i>	<u>(1.76)</u>	<u>(1.70)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		As at 31 December 2020	As at 31 December 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Non-current assets			
Plant and equipment		70,601	85,549
Intangible assets		608	722
Financial assets at fair value through profit or loss ("Financial assets at FVTPL")		5,816	6,061
Financial assets at fair value through other comprehensive income ("Financial assets at FVTOCI")		–	2,798
Right-of-use assets		65,766	110,906
Goodwill		9,152	9,152
Interests in an associate	<i>11</i>	3,494	–
Deposits	<i>12</i>	4,771	8,136
		<u>160,208</u>	<u>223,324</u>
Current assets			
Financial assets at FVTOCI		1,972	–
Inventories		8,154	8,178
Account and other receivables	<i>12</i>	36,977	55,894
Loan receivables	<i>13</i>	4,356	5,400
Amount due from an associate	<i>11</i>	1,383	–
Amounts due from non-controlling interests		2,493	4,528
Cash and cash equivalents		9,875	23,311
		<u>65,210</u>	<u>97,311</u>

		As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
Liabilities			
Current liabilities			
Account and other payables	14	43,838	58,523
Lease liabilities		15,540	23,011
Bank overdrafts		2,992	5,995
Derivative financial liabilities		309	45
Income tax payables		11	302
Bank loans		22,927	1,200
		<u>85,617</u>	<u>89,076</u>
Net current (liabilities)/assets		<u>(20,407)</u>	<u>8,235</u>
Total assets less current liabilities		<u>139,801</u>	<u>231,559</u>
Non-current liabilities			
Other payables	14	29,647	33,822
Bank loans		–	9,900
Lease liabilities		66,965	105,386
Convertible loans		8,877	8,880
Convertible promissory notes		17,709	17,344
Amounts due to non-controlling interests		10,648	14,165
Provision for reinstatement costs		1,565	1,565
Derivative financial liabilities		177	21
		<u>135,588</u>	<u>191,083</u>
Net assets		<u>4,213</u>	<u>40,476</u>
Equity			
Share capital		18,000	18,000
Reserves		(1,540)	30,466
Equity attributable to owners of the Company		16,460	48,466
Non-controlling interests		(12,247)	(7,990)
Total equity		<u>4,213</u>	<u>40,476</u>

NOTES TO THE 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 directors of the Company regard Welmen Investment Co. Ltd, a company incorporated in the British Virgin Islands as the ultimate 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 Hong Kong dollars (“HK\$”) for the convenience of the investors as the shares of the Company are listed on the GEM of the Stock Exchange. All values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2. 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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or before 1 January 2020 for the preparation of the consolidated financial statements:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform

In addition, the Group has early applied the HKFRS 16 (Amendments) Covid-19-Related Rent Concession.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening accumulated losses at 1 January 2020. The Group has benefited from 8 months or less waiver of lease payments on several leases in Hong Kong. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rate originally applied to these leases respectively, resulting in a decrease in the lease liabilities of approximately HK\$5,343,000, which has been recognised as variable lease payments in profit or loss for the current year.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ¹
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ²
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform — Phase 2 ⁴
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
HKAS 16 (Amendments)	Property, Plant and Equipment — Proceeds before Intended Use ²
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract ²
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

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

⁴ Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2.2 Basis of preparation of consolidated financial statements

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. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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.

Going concern assessment

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The Group incurred a net loss of approximately HK\$38,337,000 for the year ended 31 December 2020 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$20,407,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group’s future operations, its ability to generate adequate cash flow in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financial requirement.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In order to ensure the Group’s ability to operate as a going concern, the directors of the Company have implemented measures to deal with the conditions referred to above, as follows:

- (i) the directors of the Company will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring other operating expenses.
- (ii) the substantial shareholders of the Company have given their consent to provide continuous financial support to the Group to enable the Group to meets its obligations when due.
- (iii) negotiating with banks for renewing banking facilities. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the banks to withdraw their bank facilities or require early repayment of the loans, and the directors believe that the existing bank facilities will be renewed when their current terms expire given the good track records and relationships the Group has with the banks.
- (iv) negotiating with the landlords for rent concessions due to the reduced number of customers as overshadowed by the outbreak of Covid-19.
- (v) On 23 March 2021, the Company entered into the subscription agreement with independent third parties (the “Subscribers”), pursuant to which the Subscribers has conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue, a total 360,000,000 shares of HK\$0.033 each for a cash consideration of approximately HK\$11,880,000 (“the Subscriptions”). At the date of approval of these consolidated financial statements, the Subscription has not been completed. Further details were set out in the Company’s announcement dated 23 March 2021.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the end of the reporting date taking into account the impact of the above measures, and believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the consolidated financial statements for the year ended 31 December 2020 have been prepared on a going concern basis.

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

The consolidated financial statements have been prepared on the historical cost basis except for financial assets at FVTPL, financial assets at 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.

3. 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.

Information about geographical areas

The Group's business and non-current assets are located in Hong Kong, the PRC, the United States (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 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Macau	34,137	121,229
Hong Kong	52,914	85,704
The PRC	71,322	18,470
	<u>158,373</u>	<u>225,403</u>

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

	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
Macau	40,234	48,154
Hong Kong	42,778	102,255
The PRC	77,196	72,138
The US	–	777
	<u>160,208</u>	<u>223,324</u>

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 (2019: nil).

4. 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 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Revenue from contracts with customers:		
<i>Recognised at a point in time</i>		
Sales of food, beverage and other products	154,765	207,648
Sponsorship income	1,730	9,979
Entrance fees income	665	6,394
Others (<i>note</i>)	738	837
	<u>157,898</u>	<u>224,858</u>
Revenue from other sources:		
Loan interest income	475	545
	<u>158,373</u>	<u>225,403</u>

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

5. OTHER INCOME AND GAIN

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Net foreign exchange gain	105	1,068
Consultancy and management fee income	4,486	2,721
Covid-19 related rental concession	5,343	–
Government grants (<i>note (a)</i>)	7,139	–
Gain on lease termination	46	–
Others (<i>note (b)</i>)	1,612	1,145
	<u>18,731</u>	<u>4,934</u>

note:

- (a) Included in government grants of approximately HK\$6,930,000 in respect of Covid-19-related subsidies, of which of approximately HK\$5,840,000 relates to Employment Support Scheme and other subsidies of HK\$1,090,000 under the Anti-epidemic Fund provided by the Hong Kong government.
- (b) Others mainly included the tips income.

6. FINANCE COSTS

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Interest on convertible promissory notes	2,003	719
Interest on convertible loans	814	457
Interest on bank loans	488	112
Interest on bank overdrafts	261	105
Interest on lease liabilities	5,692	3,982
Others	112	–
	<u>9,370</u>	<u>5,375</u>

7. TAXATION

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Income tax expense		
— Macau Complementary Tax		
— Current year	—	493
— Over provision in prior years	(291)	—
— PRC Enterprise Income Tax	—	134
	<u> </u>	<u> </u>
	(291)	627

Macau Complementary Tax is calculated at 12% of the assessable profit for the years ended 31 December 2020 and 2019.

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 2020 and 2019.

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 2020 and 2019.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for 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.

8. LOSS BEFORE TAXATION

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Loss before taxation has been arrived at after charging/(crediting):		
Staff costs:		
Directors’ emoluments (included retirement scheme contributions)	2,261	2,686
Salaries and other benefits	76,025	72,420
Retirement benefits scheme contributions	1,610	2,343
	<u> </u>	<u> </u>
	79,896	77,449

	Year ended 31 December 2020 <i>HK\$'000</i>	Year ended 31 December 2019 <i>HK\$'000</i>
Auditors' remuneration:		
Audit services		
— HLB Hodgson Impey Cheng Limited	700	950
— Other auditor	120	171
Non-audit services		
— HLB Hodgson Impey Cheng Limited	—	400
	<u>820</u>	<u>1,521</u>
Cost of inventories sold	44,750	53,900
Impairment losses under expected credit loss (“ECL”) model, net of reversal:		
— account and other receivables	(706)	610
— loan receivables	44	(214)
— amounts due from non-controlling interests	54	—
— loan to an associate and amount due from an associate	106	—
Fair value change of financial assets at FVTPL	(245)	(61)
Fair value change of derivative financial liabilities	420	(1,116)
Equity-settled share option expense	140	378
Bad debt written off*	425	—
Written off on plant and equipment*	523	—
Utilities*	2,825	3,602
Legal and professional fee*	6,116	11,952
Entertainment and travelling*	7,896	18,087
Repair and maintenance*	1,217	2,103
Uniform and cleaning*	2,796	4,204
Bank charges*	1,864	2,736
	<u>12,023</u>	<u>15,524</u>
Short term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16	8,710	9,760
Profit sharing for lease payment (<i>note</i>)	3,313	5,764
	<u>12,023</u>	<u>15,524</u>
Depreciation of plant and equipment	19,141	11,036
Depreciation of right-of-use assets	19,126	14,598
Amortisation of intangible assets	114	114
	<u>38,381</u>	<u>25,748</u>

* These items were grouped under other operating expense.

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.

9. 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 2020 (2019: nil).

10. LOSS PER SHARE

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

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Loss for the purpose of basic and diluted loss per share	<u>(31,759)</u>	<u>(30,633)</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,800,000</u>	<u>1,800,000</u>

note: Diluted loss per share for the years ended 31 December 2020 and 2019 were the same as basic loss per share because the outstanding convertible bonds, the outstanding convertible promissory and the share option had an anti-dilutive effect on the basic loss per share.

11. INTERESTS IN AN ASSOCIATE

	2020 HK\$'000
As at 1 January	–
Initial recognition on the derecognition of a subsidiary (<i>Note 15</i>)	–
Capital injection	1,989
Share of losses of the associate	<u>(1,989)</u>
	–
Loan to an associate	3,494
Amount due from an associate	<u>1,383</u>
As at 31 December	4,877
Less: Amounts shown under current assets	<u>(1,383)</u>
Amounts shown under non-current assets	<u><u>3,494</u></u>

12. ACCOUNT AND OTHER RECEIVABLES

	As at 31 December 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Account receivables	7,634	8,916
Less: Allowance for ECL	(308)	(928)
	<u>7,326</u>	<u>7,988</u>
Sponsorship receivables	485	3,664
Less: Allowance for ECL	(10)	(34)
	<u>475</u>	<u>3,630</u>
Other receivables	9,455	8,732
Less: Allowance for ECL	(202)	(169)
	<u>9,253</u>	<u>8,563</u>
Prepayments	<u>9,555</u>	<u>11,346</u>
Deposits	15,381	32,840
Less: Allowance for ECL	(242)	(337)
	<u>15,139</u>	<u>32,503</u>
	41,748	64,030
Less: Portion classified as non-current — Deposits	(4,771)	(8,136)
Current portion	<u><u>36,977</u></u>	<u><u>55,894</u></u>

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 ECL, presented based on the invoice date at the end of the reporting period:

	As at 31 December 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
0 to 30 days	4,937	4,996
31 to 60 days	379	1,394
61 to 90 days	330	698
91 to 120 days	452	564
Over 120 days	1,228	336
	<u>7,326</u>	<u>7,988</u>

13. 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\$4,450,000 (2019: HK\$5,450,000) were carrying interest at 10% (2019: 10%) per annum. The loan receivables were recoverable according to repayment schedules, normally with contractual maturity within one year as at 31 December 2020 and 2019. Included in loan receivables, there was approximately HK\$1,000,000 as at 31 December 2019 represented a loan to a related party which was unsecured, carried interest 10% per annum and recoverable within one year. During the year ended 31 December 2020, the loan to a related party was fully repaid.

	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
Loan receivables, gross	4,450	5,450
Less: Allowance for ECL	(94)	(50)
Loan receivables, net	<u>4,356</u>	<u>5,400</u>

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

	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
Within one year	<u>4,356</u>	<u>5,400</u>

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

14. ACCOUNT AND OTHER PAYABLES

	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
Account payables	10,304	10,259
Rental payables (<i>note (i)</i>)	12,199	6,797
Other payables	41,146	62,467
Accruals	9,836	12,822
	<u>73,485</u>	<u>92,345</u>
Less: Portion classified as non-current		
— Other payables (<i>note (ii)</i>)	(29,647)	(33,822)
Current portion	<u>43,838</u>	<u>58,523</u>

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

notes:

- (i) As at 31 December 2020, the rental payables represent the short-term leases expense and contingent rental expense of approximately HK\$4,991,000 (2019: HK\$2,547,000) and HK\$7,208,000 (2019: 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.

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 2020 HK\$'000	As at 31 December 2019 HK\$'000
0–30 days	5,779	6,166
31–60 days	1,522	2,257
61–90 days	1,429	933
91 to 120 days	1,574	903
	<u>10,304</u>	<u>10,259</u>

15. DEEMED DISPOSAL OF A SUBSIDIARY

On 30 March 2020, Luk Hing Mandarin Limited (an indirect wholly owned subsidiary of the Company) (“LH Mandarin”) entered into the subscription agreements with the several independent third parties, agreed to subscribe for and to allot and issue 6,127,200 shares of LH Mandarin (the “Subscription”). Upon the completion of the Subscription, 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. LH Mandarin was derecognised as a subsidiary of the Company and excluded from the scope of the consolidation, and was accounted for as an associate using equity accounting in the Group’s consolidated financial statements (the “Derecognition”).

The net liabilities of LH Mandarin at the date of the Derecognition are as follows:

	<i>HK\$'000</i>
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 liabilities	<u>(28,548)</u>
Net liabilities	<u>(9,714)</u>

No cash consideration was received or paid from the transaction.

A gain of approximately HK\$9,714,000 recognised in profit or loss for the difference between the fair value of investment retained in the associate and the carrying amount of net liabilities derecognised in the subsidiary.

16. 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 2020, the amount authorised but not contracted for was approximately HK\$10.6 million (2019: HK\$10.6 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 2020 HK\$’000	As at 31 December 2019 HK\$’000
Plant and equipment	<u>–</u>	<u>1,052</u>

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 2020 HK\$’000	As at 31 December 2019 HK\$’000
Unpaid balance of capital contribution to a subsidiary in the PRC	<u>42,473</u>	<u>40,175</u>

17. EVENTS AFTER THE REPORTING PERIOD

- (a) On 4 January 2021, the Company granted share options to the Directors, a director of subsidiary of the Company, a consultant and an employee of the Group (the “Grantees”) to subscribe for a total of 144,000,000 ordinary shares of HK\$0.01 each in the capital of the Company, subject to acceptances of the Grantees, under the share option scheme of the Company adopted on 18 October 2016 (the “Share Option Scheme”). For the details of the grant of share option, please refer to the Company’s announcement dated 4 January 2021.
- (b) On 23 March 2021, the Company entered into the subscription agreement with independent third parties (the “Subscribers”), pursuant to which the Subscribers has conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue, a total 360,000,000 shares of HK\$0.033 each for a cash consideration of approximately HK\$11,880,000 (“the Subscriptions”). At the date of approval of these consolidated financial statements, the Subscriptions have not been completed. Further details were set out in the Company’s announcement dated 23 March 2021.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's consolidated financial statements for the year ended 31 December 2020:

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK\$38,337,000 during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$20,407,000. As stated in Note 2.2 to the consolidated financial statements, these events or conditions, along with other matters as forth in Note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 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 our newly operated restaurant namely "GaGiNang" which commenced business operation in February 2020, which the Group owned effective equity interest of 29.73%.

BUSINESS REVIEW

During the period under review, the economy of Hong Kong was adversely affected by the outbreak of coronavirus disease 2019 ("COVID-19"). As the COVID-19 pandemic battered tourism and consumption, Hong Kong posted its worst-ever retail sales slump in the year with unemployment rate hit a 16-year high in the final quarter of 2020.

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 mainland China, "CUBIC SPACE+" which the Group holds effective equity interests of 62.22%.

The market condition and consumer sentiment of Macau has been adversely affected by the COVID-19 outbreak. Casino operations in Macau were closed for a 15-day period in February 2020. Visitation to Macau has fallen significantly since the outbreak of COVID-19 in December 2019. Total visitation from mainland China to Macau decreased by 83.0% year-on-year in 2020 according to Macau tourism statistics. The Chinese government reduced availability of its visa and group tour schemes that allow mainland Chinese residents to travel to Macau, entry bans, restriction and quarantine orders on nearly all visitors traveling to and from Macau deterred visitation to Macau. Quarantine requirements remain in effect for people attempting to enter Macau, subject to various conditions such as visa requirements, their COVID-19 test results, recent travel history and other conditions as applicable. On 21 December 2020, the Macau government announced that generally, individuals who have been to countries and regions other than mainland China and Taiwan in the preceding 21 days are required to undergo a mandatory 21-day quarantine upon entry into Macau from mainland China, Taiwan or Hong Kong. Foreigners continue to be unable to enter Macau, except if they have been in mainland China in the preceding 21 days and are eligible for an exemption application.

Following the close of casino operations in Macau, the operations of Club Cubic Macau had been temporarily suspended from 5 February 2020 and operations resumed on 5 March 2020. The COVID-19 outbreak had an adverse impact on the operations and financial conditions of Club Cubic Macau during the period under review. Revenue for the period decreased by 71.8% to HK\$34.1 million as compared to the same period of last year. Club Cubic Macau has taken measures to minimize the impact as well as to reduce cost, particularly the rental expenses by liaising with landlords, City of Dreams' operator ("COD") for rental concessions. With the support of COD, Club Cubic Macau was partially waived on the base rental and minimum guaranteed profit payment to COD in the first half of 2020.

Our operation in the Mainland China, CUBIC SPACE+ fared better than Club Cubic Macau during the pandemic. CUBIC SPACE+ was required to suspend its operation from 25 January 2020 to cooperate with the emergency public health policy according to the Government policy. With the pandemic situation being largely under control and the relaxation of social distancing measures, CUBIC SPACE+ was re-opened on 6 May 2020. We were encouraged to see that CUBIC SPACE+ is gaining popularity in Zhuhai and it has achieved positive financial performance. Located by the Zhuhai Grand Theater, CUBIC SPACE+ offers customers a diversified leisure and entertainment experiences. It underpins the success in diversifying strategy of the Group through transforming business model integrated with local characteristics.

Operation of Restaurant Business

According to the Census and Statistics Department of Hong Kong, overall restaurant receipts of Hong Kong for 2020 shrank to HK\$79.4 billion, down from HK\$112.5 billion in 2019. Hong Kong's restaurant earnings dived nearly 30% in 2020 as social distancing regulations hammered the industry.

The unprecedented COVID-19 pandemic and social distancing measures significantly impacted the Group's restaurant business operations during the period under review. The difficult situation began with the order requiring restaurants to limit number of diners at each table to four with table placed at least 1.5 meters apart from each other starting from 0:00 am on 28 March 2020, by then restaurants can only be allowed to operate at half capacity. We saw a sharp rebound in sales performance of the Group's restaurant business in May, thanks to the stabilized local epidemic situation and the relaxing of social distancing measures. Unfortunately, the third wave of COVID-19 led to social distancing measures taking effect again in July, tightening gathering to 4 peoples and restaurants restricted not to exceed 50% of normal seating capacity. Worst of all, the Government banned dine-in service from 6 pm until 5 am the following day and further tightening the number cap at two person per table on 29 July 2020. The Group was able to recover our restaurant business in September to late November after the third wave of the COVID-19 outbreak subsided in Hong Kong. However, the fourth wave of infections saw increasingly tighter government-imposed restrictions with the dine-in service from 6 pm and 4:59 am of the subsequent day banned on 10 December 2020 which remained in place as of 31 December 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 29.73% effective equity interest in Luk Hing Mandarin which has become an associate of the Company as of 31 December 2020. Please refer to the announcements of the Company dated 30 March 2020 and 16 September 2020 for details.

It was an unprecedented challenge to the Group with this outbreak of COVID-19 pandemic which led to a 29.7% decrease in revenue to HK\$158.4 million compared to the same period of last year. The Group has taken immediate measures to manage the situation and minimize impact on long-term performance. These included stringent cost control, liaising with landlords for rental concessions, explored funding sources and deferral of capital expenditures investment to preserve cash position of the Company. During the period under review, the Group received pandemic subsidies from the Hong Kong Government of total HK\$6.9 million which included subsidies of HK\$5.8 million under the Employment Support Scheme used for paying salaries to our employees and other subsidies of HK\$1.1 million under the Anti-epidemic Fund of the Hong Kong Government. The Group also received a total of HK\$12.4 million under the Special 100% Loan Guarantee Scheme. The disruption from the COVID-19 outbreak is expected to persist in at least a portion of 2021 and recovery from such disruption will depend on future development such as successful development and acceptance of safe and effective vaccine. The Group has shifted its strategy and operations to ensure effective business continuity and evolution in this new rhythm of business.

FINANCIAL REVIEW

Revenue

Total revenue of the Group decreased by 29.7% from HK\$225.4 million in 2019 to HK\$158.4 million in 2020. The negative impact from the outbreak of COVID-19 caused: (i) 71.8% drop of revenue in Club Cubic Macau from HK\$121.1 million to HK\$34.1 million; (ii) 42.2% decrease in revenue of HEXA from HK\$72.4 million to HK\$41.9 million; and (iii) partially offset by the revenue of HK\$81.0 million contributed by the newly operated GaGiNang and full year operation of CUBIC SPACE+ and SIXA in 2020.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It decreased by 16.88% from HK\$53.9 million in 2019 to HK\$44.8 million in 2020. Cost of inventories of Club Cubic Macau and HEXA decreased in line with the decrease of revenue; partially offset by the cost of inventories from our newly operated GaGiNang and full year operation of CUBIC SPACE+ and SIXA.

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 slightly by 3.2% from HK\$77.4 million in 2019 to HK\$79.9 million in 2020. Additional staff costs incurred for the newly operated GaGiNang and full year operation of CUBIC SPACE+ and SIXA in 2020 partially offset the effect of 49.9% and 22.7% decrease in salary costs of Club Cubic Macau and HEXA resulted from cost cutting measures in 2020.

Property rentals and related expenses decreased by 22.6% from HK\$15.5 million in 2019 to HK\$12.0 million in 2020. Rental concessions offered by the landlords and decrease in contingent rentals of Club Cubic Macau and HEXA due to drop of revenue partially offset the additional property rentals and related expenses incurred by our newly operated GaGiNang and full year operation of CUBIC SPACE+ and SIXA in 2020.

Depreciation and Amortization increased by 49.4% from HK\$25.7 million in 2019 to HK\$38.4 million in 2020. This was mainly caused by the depreciation of CapEx and amortization of right-of-use assets from our newly operated GaGiNang and full year operation of CUBIC SPACE+ and SIXA in 2020.

Advertising and marketing expenses decreased substantially by 90.4% from HK\$31.4 million in 2019 to HK\$3.0 million in 2020 due to the adoption of cost control measures on temporary suspension of marketing expense from February 2020 to cope with the impact of COVID-19.

Other operating expenses represented expenses incurred for the operations. This included mainly cleaning and laundry, utilities, credit card commission, repair and maintenance, insurance expense. Other operating expenses decreased by 43.8% from HK\$63.9 million in 2019 to HK\$35.9 million in 2020. Additional other operating expenses incurred for the newly operated GaGiNang and full year operation of CUBIC SPACE+ and SIXA in 2020 partially offset the effect of 56.9% and 40.3% drop of other operating expenses resulted from the cost cutting measures in Club Cubic Macau and HEXA respectively in 2020.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company was HK\$31.8 million in 2020 compared to loss attributable to owners of the Company of HK\$30.6 million in 2019. The loss was mainly attributable to the decrease of revenue in connection with the outbreak of COVID-19. The severe impact on tourism of Macau and the mandatory policy such as social distancing and ban of dine-in services had significantly disrupted the operations of our clubbing and restaurant business. However, the improving financial performance of CUBIC SPACE+ and the positive impact from the one-off gain of deemed disposal of GaGiNang partially offset the negative impact of COVID-19 outbreak.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Below is a summary of the key financial ratio:

	<i>Notes</i>	As at 31 December 2020	As at 31 December 2019
Current ratio	<i>1</i>	0.8	1.1
Quick ratio	<i>2</i>	0.7	1.0
Debt ratio	<i>3</i>	98.1%	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 ratio is calculated by dividing total liabilities by total assets as at the respective period end.

The Group had cash and cash equivalents of HK\$9.9 million as at 31 December 2020 (31 December 2019: HK\$23.3 million).

In 2020, the Group received pandemic subsidies from the Hong Kong Government of total HK\$6.9 million which included subsidies of HK\$5.8 million under the Employment Support Scheme used for paying salaries to our employees and other subsidies of HK\$1.1 million under the Anti-epidemic Fund of the Hong Kong Government. The Group also received a total of HK\$12.4 million under the Special 100% Loan Guarantee Scheme.

As at 31 December 2020, The Group had external borrowing of HK\$52.5 million (31 December 2019: HK\$43.9 million), including an outstanding amount of HK\$3.0 million (31 December 2019: HK\$6 million) from the bank overdraft facility for which the Company provided its corporate guarantee.

CHARGES ON ASSETS

As at 31 December 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 26 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 31 December 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	–
Total	<u>26.2</u>	<u>13.9</u>	<u>13.9</u>	<u>–</u>

REASONS FOR CHANGE IN USE OF PROCEEDS

Since the outbreak of COVID-19 in January 2020, the economy and the market situations of Macau and Hong Kong had been severely hit and the continuous impact on the economic outlook remains uncertain. The Board was of the view that the Company should shift the priority 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 was reallocated to the general working capital of the Group. The Board was of the view that the use of proceeds was appropriately adjusted to better meet the current economic climate and was more beneficial to the Group’s operational needs in combatting the challenges brought by the COVID-19 pandemic. As at 31 December 2020, the Group had no unutilized net proceed.

Principal risks and uncertainties

Measures

- (i) After years of effort in diversifying our sources of revenue, our CUBIC SPACE+ in Zhuhai became a significant portion of our revenue. As our first business in mainland China, 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.
 - (ii) A certain 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 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.
 - (iii) 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.
- (1) We have allied with experienced local business partners for the localization of our business. When expanding our clubbing business to other regions of mainland China, we will also continue to work with business partners or investors who are more familiar with local environment to mitigate our risk exposure and ease our financial burden.
 - (2) 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.
 - (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 operated HEXA and SIXA. Our restaurant business has been playing a more and more important role in revenue contribution to the Group.

Principal risks and uncertainties	Measures
(iv) Compliance with Relevant Laws and Regulations.	The Group has in place compliance and risk management procedures and policies to 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.
(v) Coronavirus Disease (“COVID-19”)	
(1) The outbreak of COVID-19 suspending or limiting services in Macau, Hong Kong and mainland, the business activities of the Company have generally been suspended or slowed down. The COVID-19 outbreak and the social distancing measures had an adverse impact on our operations and financial results in 2020 and the adverse effect is expected to persist in at least a portion of 2021.	(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 have an adverse effect on the tourism Industry in Macau, Hong Kong and the ongoing impact may disrupt our business conditions 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

The Group’s principal operations are primarily conducted and recorded in Hong Kong dollar (“HK\$”), Macau Patacas (“MOP”), Renminbi (“RMB”). The financial statements of foreign operations are translated into HK\$ which is the Company’s functional and presentation currency. The exchange rate between HK\$ and MOP remained relatively stable historically, the Group does not expect fluctuations in the values of these currencies to have a material impact on its operations. During the period under review, a significant portion of revenues are denominated in RMB which the Group does not currently engage in hedging transactions. However, the Group maintains a certain amount of its operating fund in RMB to reduce the exposure of currency fluctuations.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save for those disclosed in this announcement, there were no other significant investments held by the Group as at 31 December 2020, nor were there other material acquisitions and of subsidiaries and affiliated companies by the Group during the year.

DIVIDEND

The Board does not recommend the payment of dividend by the Company for the year ended 31 December 2020.

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 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 has 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, except for the below deviations.

A.2.1

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.

Code A.6.7

One executive Director, two non-executive Directors and three independent non-executive Directors were absent from the last annual general meeting of the Company held on 19 June 2020 as they were away from Hong Kong due to other important engagements at the time of this meeting. The Board considered that sufficient measures had been taken for the absent Directors to understand the views of shareholders.

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 Ka Yin, 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. Tang Tsz Tung and a non-executive Director, Mr. Au Wai Pong Eric.

The consolidated financial statements of the Group for the year ended 31 December 2020, including the accounting principles and practices, internal control and financial reporting matters have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2020.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "AGM") will be held on Friday, 18 June 2021. A notice convening the AGM will be published and despatched to the shareholders of the Company in the manner required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 11 June 2021.

SCOPE OF WORK OF AUDITORS

The figures in respect of the preliminary announcement of the Group's result for the year ended 31 December 2020 have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited ("HLB"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by HLB on the preliminary announcement.

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 and Mr. Yeung Chi Shing. Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai 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
“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, 1820 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

BOARD OF DIRECTORS

As at the date of this announcement, 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. Tang Tsz Tung

Mr. Chan Ka Yin

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, 23 March 2021

This announcement will remain on the Stock Exchange’s website at www.hkexnews.hk, in the case of the announcement, on the “Latest Company Announcements” page for at least 7 days from the day of its posting. This announcement will also be published on the Company’s website at www.lukhing.com.