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LUK HING ENTERTAINMENT GROUP

CUBIC

INTERIM REPORT 2017

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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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 (the "Board") of Directors of the Company 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 2017, together with the unaudited comparative figures for the respective corresponding period in 2016, 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	
		2017	2016	2017	2016
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	29,268	28,685	51,058	52,036
Other income and gain		499	675	889	1,176
Cost of inventories sold		(5,840)	(5,970)	(10,445)	(10,584)
Staff costs		(9,023)	(7,154)	(17,134)	(14,737)
Depreciation and amortisation		(538)	(456)	(1,067)	(1,027)
Property rentals and related expenses		(1,838)	(2,374)	(3,518)	(3,735)
Advertising and marketing expenses		(4,829)	(4,881)	(7,374)	(9,075)
Other operating expenses		(6,936)	(4,990)	(13,984)	(10,213)
Listing expenses		-	(204)	-	(3,074)
Profit/(Loss) before taxation		763	3,331	(1,575)	767
Taxation	4	-	-	-	-
Profit/(Loss) and total comprehensive income/(loss) for the period attributable to the owners of the Company		763	3,331	(1,575)	767
		HK Cents	HK Cents	HK Cents	HK Cents
Earning/(Loss) per share					
Basic and diluted	5	0.042	0.247	(0.088)	0.057

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Assets			
Non-current assets			
Plant and equipments	7	5,281	5,485
Available-for-sale investments	8	777	–
Intangible assets		876	934
Deposits		195	103
		7,129	6,522
Current assets			
Inventories		3,800	4,677
Account and other receivables	9	25,666	25,641
Cash and cash equivalents		64,475	73,850
		93,941	104,168
Liabilities			
Current liabilities			
Account and other payables	10	15,598	23,643
Income tax payables		8	8
		15,606	23,651
Net current assets		78,335	80,517
Total assets less current liabilities		85,464	87,039
Net assets		85,464	87,039
Equity			
Share capital		18,000	18,000
Reserves		67,464	69,039
Total equity		85,464	87,039

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2017

	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Legal reserve HK\$'000 (Unaudited)	Retained earnings HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2016	24	-	12	14,783	14,819
Profit and total comprehensive income for the period	-	-	-	767	767
Effect of reorganisation	(24)	-	-	-	(24)
Dividends (Note 6)	-	-	-	(5,807)	(5,807)
At 30 June 2016	-	-	12	9,743	9,755
At 1 January 2017	18,000	66,235	12	2,792	87,039
Loss and total comprehensive loss for the period	-	-	-	(1,575)	(1,575)
At 30 June 2017	18,000	66,235	12	1,217	85,464

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six-month period ended 30 June 2017 HK\$'000 (Unaudited)	Six-month period ended 30 June 2016 HK\$'000 (Unaudited)
Net cash used in operating activities	(7,818)	(10,860)
Net cash used in investing activities	(1,557)	(624)
Net cash used in financing activity	–	(1,485)
Net decrease in cash and cash equivalents	(9,375)	(12,969)
Cash and cash equivalents at the beginning of the period	73,850	20,962
Cash and cash equivalents at the end of the period	64,475	7,993
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	64,475	7,993

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. 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 2017 have been prepared under historical cost convention and 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 28 March 2017 (the “2016 Annual Report”). The accounting policies adopted are consistent with those applied in the Group’s audited annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, except the new and revised HKFRSs which are effective for the financial year beginning from 1 January 2017. 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 are not yet effective.

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

2. OPERATING SEGMENT

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

Information about geographical areas

The Group's revenue from external customers based on the location of the customers is detailed as below:

	For the six-month period ended	
	30 June 2017	30 June 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Macau (place of domicile)	50,398	52,036
Others	660	–
	51,058	52,036

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

	As at 30 June 2017	As at 31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Macau (place of domicile)	5,644	5,815
Hong Kong	1,485	707
	7,129	6,522

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 (2016: HK\$Nil).

3. REVENUE

Revenue represents amounts received and receivable from club operations and event organization. An analysis of revenue is as follows:

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Sales of beverage and other products	24,441	24,080	43,852	43,708
Sponsorship income	2,067	2,687	2,164	3,633
Entrance fees income	2,622	1,882	4,253	3,962
Others (note)	138	36	789	733
	29,268	28,685	51,058	52,036

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

4. INCOME TAX EXPENSES

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax	-	-	-	-

- (i) No provision for Macau complementary tax is made since the Macau subsidiary has no estimated assessable profit for the three-month and six-month period ended 30 June 2017 and 2016, respectively. 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 period ended 30 June 2017 and 2016, respectively.

- (ii) In May 2017, the Macau Financial Services Bureau (the “Macau FSB”), after the review by its Complementary Income Tax Review Committee, demanded our Macau subsidiary to pay an additional income tax of approximately HK\$0.9 million for the year of assessment ended 31 December 2013 as the tax authority revised its original assessment and disallowed the deductibility of the then contingent rentals paid to the owner of the club premises. In June 2017, the Macau FSB also issued revised assessment and demanded for an additional income tax of approximately HK\$0.8 million for the year of assessment ended 31 December 2014 on the same ground.

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

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 non-taxable. The owner has agreed to bear the relevant additional tax for the years of assessment ended 31 December 2013 and 2014 if the Group fails in its appeal. In case the Macau FSB also disallows the deductibility of the contingent rentals for the years of assessment ended 31 December 2015 and 2016 and the Group fails in its appeal, the owner will also bear the relevant additional tax. The additional tax is estimated to be approximately HK\$3.4 million in aggregate for the years of assessment ended 31 December 2013, 2014, 2015 and 2016.

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

5. EARNING/(LOSS) PER SHARE

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit/(Loss) for the period attributable to the owners of the Company	763	3,331	(1,575)	767
	'000	'000	'000	'000
Number of ordinary shares for the purpose of calculating basic earning/(loss) per share	1,800,000	1,350,000	1,800,000	1,350,000

The calculation of basic earning/(loss) per share for the three-month and six-month periods ended 30 June 2017 and 2016 is based on the profit/(loss) and total comprehensive income/(loss) for the period attributable to the owners of the Company and the weighted average number of shares for the relevant period.

For the three-month and six-month periods ended 30 June 2016, the weighted average number of ordinary shares for the purpose of calculating basic earning/(loss) per share is calculated based on the assumption that 1,350,000,000 ordinary shares had been in issue, comprising 10,000 ordinary shares in issue and 1,349,990,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the sub-section headed "Share Capital" set out in the prospectus of the Company dated 27 October 2016 (the "Prospectus") as if the shares had been outstanding throughout the period.

No adjustment has been made to the basic earning/(loss) per share presented for the three-month and six-month periods ended 30 June 2017 and 2016 in respect of a dilution as the Group did not have any potentially dilutive ordinary shares in issue during those periods.

6. DIVIDEND

Before the Company became the holding company of the Group on 25 January 2016, a member of the Group declared a dividend of approximately HK\$5.8 million on 8 January 2016 to its former shareholder, Star Century Investments Limited. The said dividend was fully settled prior to the listing of the Company's shares on the GEM on 11 November 2016.

No dividend has been paid or proposed by the Company since its date of incorporation on 30 November 2015. The Board does not recommend the payment of an interim dividend by the Company for the six-month period ended 30 June 2017.

7. PLANT AND EQUIPMENTS

The Group acquired items of plant and equipment with cost amounting to HK\$805,000 and HK\$634,000 during the six months ended 30 June 2017 and 2016, respectively. No items of plant and equipment were disposed during the six months ended 30 June 2017 and 2016, respectively.

8. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Unlisted securities, at cost	777	–

The unlisted securities represent the investment in convertible preferred stock of an oversea entity. The investment is held for long term strategic purpose. As there are no sufficient market comparables as input to measure the fair value reliably, the investment is measured at cost less impairment.

9. ACCOUNT AND OTHER RECEIVABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Account receivables	3,128	7,904
Less: allowance for doubtful debts	—	—
	3,128	7,904
Sponsorship receivables	3,005	5,150
Prepayments	8,751	6,099
Deposits	10,017	6,059
Other receivables	960	532
	25,861	25,744
Portion classified as non-current		
— Deposits	(195)	(103)
	25,666	25,641

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

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
0 to 30 days	1,056	4,569
31 to 60 days	176	897
61 to 90 days	320	1,130
Over 90 days	1,576	1,308
	3,128	7,904

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

Past due but not impaired

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

As at 30 June 2017 and 31 December 2016, account receivables of approximately HK\$1,896,000 and HK\$2,438,000 were past due but not impaired, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables presented based on due date is as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Overdue by:		
0 to 30 days	320	1,130
Over 30 days	1,576	1,308
	1,896	2,438

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

10. ACCOUNT AND OTHER PAYABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Account payables	771	2,232
Rental payables	–	3,582
Other payables	9,813	13,022
Accruals	5,014	4,807
	15,598	23,643

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 date, as of the end of the reporting period:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
0 to 30 days	686	2,148
31 to 60 days	61	76
Over 60 days	24	8
	771	2,232

As at 30 June 2017 and 31 December 2016, other payables mainly represented the amount due to Melco Crown (COD) Retail Services Limited of approximately HK\$4,473,000 and HK\$8,680,000 respectively. The amount is unsecured, interest free and repayable on demand.

11. CAPITAL COMMITMENTS

The Group served a renewal notice with effect on 11 November 2016 to the owner of the club premises 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 to 31 January 2018 (or such other new date as further agreed between the parties). As at 30 June 2017, the amount authorised but not contracted for was approximately HK\$7.9 million. Capital commitments outstanding at the end of the reporting period contracted but not provided for in the financial statements in respect of the Expansion were as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Plant and equipments	1,197	2,451

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 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Plant and equipments	1,202	–

On 2 June 2017, the Group entered into an agreement with other investors to form a joint venture ("Zhuhai JV"), in which the Group shall strategically hold less than 20% equity interest, in the PRC for the operation of Club Cubic in Zhuhai. Pursuant to the respective agreement, the Group shall contribute approximately RMB4.5 million (equivalent to approximately HK\$5.2 million) to the Zhuhai JV. As at 30 June 2017, the Group had not yet made any capital contribution to the Zhuhai JV.

12. 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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Salaries and other short term employee benefits	1,325	1,091
Retirement scheme contributions	26	25
	1,351	1,116

- (b) Other related party transactions:

Related parties	Nature of transactions	For the six-month period ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Zone One (CS) Limited (Note i)	Rental expenses	600	400
Bo Xing Group Company Limited (Note ii)	Service expenses	13	-

Notes:

- i. Zone One (CS) Limited is held by Mr. Choi Kuen Kwan and Ms. Lo Mong Yee, who are the father and the mother of Mr. Choi Yiu Ying and Mr. Choi Siu Kit, who are the executive directors of the Group.
- ii. The major shareholder of Bo Xing Group Company Limited is Star Century Investments Limited, which is the former shareholder of Luk Hing Investment Limited. The executive directors of the Group are the ultimate shareholders of Star Century Investments Limited.

13. 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 2017 and 31 December 2016.

14. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into subscription agreements with other investors to form a joint venture (“HK JV”) for the operation of a Chinese restaurant and bar in Hong Kong. Pursuant to the respective agreements, the parties expect that they will invest up to an aggregate of HK\$25 million into the HK JV, of which about 56.8% is effectively contributed by the Group. The HK JV will be a subsidiary of the Company. For further details, please refer to the Company’s announcement dated 1 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a premium clubbing and entertainment business operator. During the first half of 2017, the Group continued to engage in the operation of clubbing business and organizing music-related featured events.

BUSINESS REVIEW

Clubbing Business

During the period under review, we continue to offer premium and high end clubbing and entertainment experience to its customers and the Group derived most of its revenue from Club Cubic Macau.

Except that Club Cubic Zhuhai is expected to be opened in around late 2017 to early 2018 and the opening and operation of Monkey Museum Changsha in January 2017, the Group will further increase our footprint for Club Cubic and Monkey Museum brand to the PRC.

In addition to the exclusive master franchising agreement in respect of the franchising of the Monkey Museum brand in mainland China, Hong Kong and Macau for an initial term of ten years entered in December 2016, we have also entered into an supplemental agreement to extend the territory of franchising the Monkey Museum brand to Singapore and Malaysia in June 2017 and in the progress of identifying the potential sub-franchisee for the opening and operation in these territories.

Pursuant to the relevant agreements, the Group in return received a portion of the franchising fee, which included a start-up joining fee and monthly fees based on the night club's revenue.

Event Organising

During the period under review, we continued to organize music-related featured events in Club Cubic Macau to offer music entertainment to our customers. We have organised a total of 27 featured events during the six months ended 30 June 2017 (June 2016: 23).

FINANCIAL REVIEW

Revenue and Other Income and Gain

Total revenue of the Group decreased by about HK\$1.0 million or 1.9% from approximately HK\$52.0 million for the first half of 2016 to approximately HK\$51.0 million for that of 2017. The decrease was contributed by the drop in sponsorship income of approximately HK\$1.5 million, which was mainly due to the strategic focus to smaller scale featured events to cope with the seasonality effect on customer traffic during the first quarter of 2017.

Other income and gain remained roughly stable at approximately HK\$0.9 million and HK\$1.2 million for the first half of 2017 and 2016 respectively.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It remained fairly stable at approximately HK\$10.4 million and HK\$10.6 million for the first half of 2017 and 2016 respectively, whereas the gross profit margin increased slightly by 0.4 percentage point from approximately 75.8% in 2016 to 76.2% in 2017.

Staff costs increased from approximately HK\$14.7 million for the first half of 2016 to approximately HK\$17.1 million for that of 2017. The increase of staff costs by about HK\$2.4 million or 16.3% was mainly attributable to (i) new staff recruited for post-listing compliance, business expansion and exploration of new business opportunities, including for the proposed operation of Chinese restaurant and bar in Harbour City; and (ii) the increase in the emoluments paid to the directors following the listing of the Company in late 2016.

Depreciation and amortization remained stable at approximately HK\$1.1 million and HK\$1.0 million for the first half of 2017 and 2016 respectively.

Property rentals and related expenses decreased by approximately HK\$0.2 million from approximately HK\$3.7 million for the first half of 2016 to approximately HK\$3.5 million for the first half of 2017, which was mainly due to (i) additional rentals of approximately HK\$0.2 million for our Hong Kong office as we rented directly from the landlord since 1 March 2016; and (ii) decrease in rentals paid to the owner of the club premises of Club Cubic Macau of approximately HK\$0.4 million, as a result of the drop in contingent rentals, partially offset by the increase in base rentals since 1 April 2017.

Advertising and marketing expenses decreased by about HK\$1.7 million or 18.7% from approximately HK\$9.1 million for the first half of 2016 to approximately HK\$7.4 million for that of 2017. The drop was mainly because we saved about HK\$1.5 million performers and agency fees as we strategically focus on smaller scale featured events in slack season to preserve our resources.

Other operating expenses increased significantly by about HK\$3.8 million or 37.3% from approximately HK\$10.2 million for the first half of 2016 to approximately HK\$14.0 million for the first half of 2017. The increase was mainly due to the increase in legal and professional fees in relation to post-listing compliance and the business travelling and entertainment expenses for business expansion and exploration of potential business opportunities in regions other than Macau.

Loss Attributable to the Owners of the Company

We recorded a net loss of approximately HK\$1.6 million for the first half of 2017, whereas we recorded a net profit of approximately HK\$0.8 million for that of 2016. We incurred listing expenses of approximately HK\$3.1 million in 2016 whereas we did not incur such expenses after listing. Excluding such non-recurring listing expenses and without taking into account the relevant impact of taxation, our adjusted net profit for the first half of 2016 would be approximately HK\$3.8 million. The change from adjusted net profit to net loss, amounted to approximately HK\$5.4 million, was mainly attributable to the aforementioned increase in other operating expenses for post-listing compliance and exploring business opportunities in regions other than Macau and the increase in staff costs.

As the Group enters the Chinese restaurant and bar business in Hong Kong, the Group incurred and expects to continue to incur substantial start-up and pre-opening costs, including but not limited to additional staff costs, rentals, commission and professional fees, as well as promotion expenses. Accordingly, the operating expenses increased and are expected to continue to increase significantly in 2017 as compared with that of last year, leading to the adverse impact to our 2017 results.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Below is a summary of the key financial ratio:

	Notes	As at 30 June 2017	As at 31 December 2016
Current ratio	1	6.0	4.4
Quick ratio	2	5.8	4.2
Gearing ratio	3	15.4%	21.4%

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. Gearing ratio is calculated by dividing total liabilities by total assets as at the respective period end.

The above key financial ratio demonstrated that the liquidity and gearing of the Group remained healthy in 2017. The shares were listed on GEM on 11 November 2016 and the capital structure of the Company comprised ordinary shares. Upon Listing, we obtained net proceeds of approximately HK\$65.6 million from the issue of a total of 450,000,000 new ordinary shares of the Company at the placing price of HK\$0.21 per share under the placing as set out in the Prospectus. The Group generally financed its daily operations from internally generated cash flows. The Group financed its business expansion and new business opportunities from the net proceeds. The remaining unused net proceeds as at 30 June 2017 were placed as interest bearing deposits with licensed bank in Hong Kong and Macau. As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$64.5 million (31 December 2016: HK\$73.9 million) and did not have any outstanding amounts of short-term or long-term bank borrowings or any loan arrangement containing any covenant, except an unutilized overdraft facility of HK\$3 million, for which the Company provided its corporate guarantee. The level of cash and cash equivalents can equip the Group to develop and expand its operation.

CHARGES ON ASSETS

As at 30 June 2017 and 31 December 2016, the Group did not have any charges on its assets.

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

The net proceeds from the issue of a total of 450,000,000 new ordinary shares of the Company at the placing price of HK\$0.21 per share under the placing as set out in the Prospectus, after deducting underwriting commission and other expenses relating to the Listing, amounted to approximately HK\$65.6 million. The net proceeds were intended to be applied in the same proportion and in the same manner as shown in the Prospectus with estimated net proceeds amounted to HK\$76.0 million, which was made under the assumption that the placing price would be HK\$0.23 per share, being the mid-point of the indicative placing price range. Accordingly, approximately 49.2% (HK\$32.3 million), 21.0% (HK\$13.8 million), 19.8% (HK\$13.0 million) and 10.0% (HK\$6.5 million) will be applied for (i) expansion of the scale of Club Cubic Macau, (ii) organising events in venues other than Club Cubic Macau, (iii) expansion in regions other than Macau, and (iv) working capital and general corporate use respectively. An analysis of the utilization of the net proceeds up to 30 June 2017 is set out below:

Business objective and strategy		Amount of usage of net proceeds up to 30 June 2017 ¹		Notes
		Planned HK\$' million	Actual HK\$' million	
(i)	Expansion of the scale of Club Cubic Macau	26.3	5.3	1
(ii)	Organizing events in venues other than Club Cubic Macau	7.6	3.1	2
(iii)	Expansion in regions other than Macau	8.5	3.6	3
(iv)	Working capital and general corporate use	4.4	4.4	
Total		46.8	16.4	

Notes:

- As disclosed in the 2016 Annual Report, the owner of the club premises delayed the approval of the expansion layout plan. Accordingly, the expansion plan is behind schedule, resulting in less actual spending. We anticipate the opening of first phase expansion is likely delayed to January 2018.
- We plan to organize the 2017 Road to Ultra event in the third quarter of 2017 and already made certain prepayments for the event, mainly in relation to engaging performers. However, we are still in negotiation with the venue provider to finalize the terms of agreement and hence we had not yet made any payments in relation to venue rental, stage design and set up, resulting in less actual spending.
- The planned amount of usage of net proceeds up to 30 June 2017 has been adjusted in the same proportion and the same manner as stated in the Prospectus due to the above-mentioned difference between the estimated net proceeds and the actual net proceeds received.

3. As disclosed in the 2016 Annual Report and the Company's announcements dated 12 December 2016, 10 February 2017, 11 April 2017 and 11 May 2017, it took relatively more time to determine and establish the suitable form of vehicles for our PRC operation and we also need more time to negotiate the contract terms with our cooperation partners to minimize our risk exposure. As disclosed in the Company's announcement dated 2 June 2017, we entered into an agreement with our cooperation partners to form a joint venture ("Zhuhai JV") in the PRC for the operation of Club Cubic in Zhuhai. As at 30 June 2017, we had not yet made any capital contribution to the Zhuhai JV. We now expect to contribute approximately RMB4.5 million (equivalent to approximately HK\$5.2 million) to the Zhuhai JV during the third quarter of 2017.

The remaining unused net proceeds as at 30 June 2017 were placed as interest bearing deposits with licensed bank in Hong Kong and Macau and they are expected to be applied according to the intended usage stated in the Prospectus.

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

Business objective and strategy	Business plan and activity	Actual business progress up to 30 June 2017
(i) Expansion of the scale of Club Cubic Macau	<ul style="list-style-type: none"> — first phase expansion area open for business (subject to approval of relevant licenses) — commence advertising and promotion of the new opening of the expansion area and organize events to boost customer traffic — expand our operation team to support the expansion area — carry out renovation and decoration 	<p>As disclosed in the 2016 Annual Report, the owner of the club premises delayed the approval of the expansion layout plan. Accordingly, the renovation and decoration works were behind schedule and hence we are unable to open the first phase expansion area by 30 June 2017 as originally expected. We currently anticipate the opening of the first phase expansion is likely delayed to January 2018.</p>

Business objective and strategy	Business plan and activity	Actual business progress up to 30 June 2017
(ii) Organizing events in venues other than Club Cubic Macau	<ul style="list-style-type: none"> — plan and finalise the lists of events outside Club Cubic Macau (including the 2017 Road to Ultra event) — commence marketing and promotion of events — engaging performers and dancers and hiring part-time staff — venue rental, stage design and setup — execute planned events, if any 	<p>We plan to organize the 2017 Road to Ultra event in the third quarter of 2017 and already made certain prepayments for the event, mainly in relation to engaging performers. We also commenced marketing and promotion of the event. However, we are still in negotiation with the venue provider to finalize the terms of agreement and hence we had not yet made any payments in relation to venue rental, stage design and set up.</p>
(iii) Expansion in regions other than Macau	<ul style="list-style-type: none"> — explore opportunities with cooperation partners and sign memorandum of understanding (“MOU”) and agreement — perform site visits, commence due diligence and engage professionals — execute cooperative/ acquisition plan and recruit staff 	<ol style="list-style-type: none"> (1) We have conducted market research and performed site visits to South Korea, Taiwan, the US and the PRC, including cities such as Seoul, Los Angeles, Singapore, Beijing, Shanghai Guangzhou, Shenzhen, Zhuhai and Changsha. (2) We recruited new staff for business expansion and exploration of new business opportunities. (3) We have entered into an exclusive master franchising agreement (“Master Agreement”) in late 2016 in respect of the franchising of the Monkey Museum brand in mainland China, Hong Kong and Macau. We identified a sub-franchisee for the opening and operation of Monkey Museum in Changsha in January 2017. The territory of the Master Agreement was extended to Singapore and Malaysia by a supplemental agreement made in June 2017.

**Business objective
and strategy**

**Business plan
and activity**

**Actual business progress
up to 30 June 2017**

- (4) As disclosed in the 2016 Annual Report and the Company's announcements dated 12 December 2016, 10 February 2017, 11 April 2017 and 11 May 2017, it took relatively more time to determine and establish the suitable form of vehicles for our PRC operation and we also need more time to negotiate the contract terms with our cooperation partners to minimize our risk exposure. As disclosed in the Company's announcement dated 2 June 2017, we entered into an agreement with our cooperation partners to form a joint venture in the PRC for the operation of Club Cubic in Zhuhai ("Zhuhai JV"). As at 30 June 2017, we had not yet made any capital contribution to the Zhuhai JV. We now expect to contribute approximately RMB4.5 million (equivalent to approximately HK\$5.2 million) to the Zhuhai JV during the third quarter of 2017.
- (5) As disclosed in the Company's announcement dated 1 August 2017, we have entered into subscription agreements with other investors to form a joint venture for the operation of a Chinese restaurant and bar in Harbour City ("HK JV"). Pursuant to the respective agreements, the parties expect that they will invest up to an aggregate of HK\$25 million into the HK JV, of which about 56.8% is effectively contributed by the Group. As at 30 June 2017, we incurred certain pre-opening expenses and made prepayments in preparation for the project. The HK JV approved the entering into of the respective operating lease. The restaurant and bar is expected to be opened in around late 2017.

PRINCIPAL RISKS AND UNCERTAINTIES

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

- (1) In order to further extend our Operating Agreement of Club Cubic Macau from March 2020 to March 2025, we have to open the first phase of expansion on or before 1 October 2017 (subject to COD not unreasonably withholding the approval of the layout plan and relevant licenses should have been obtained from the relevant government authorities, otherwise the opening date shall be postponed to 1 November 2017, or such other date agreed between the parties). The investment for the first phase expansion shall not be less than MOP15 million. As the owner of the club premises needs more time to approve the layout plan, the expansion plan was behind schedule and we currently anticipate that opening of first phase expansion will likely be delayed to January 2018, which is agreed by the owner. Our expansion plan also requires significant development and renovation of the extension before opening. It may take longer than our expectation to implement our expansion plan and there may be unforeseen delays before the expansion area can be open for business, including but not limited to difficulties and delay in the process of obtaining the relevant licenses and approvals. In such case, the opening of first phase expansion may be further delayed.
- (2) A significant portion of our revenue was derived from Club Cubic Macau. Any significant operational or other difficulties in the business at or from Club Cubic Macau, including those matters affecting the execution of Operating Agreement, may reduce, disrupt or halt our operation and business at the premises, which would materially and adversely affect our business, prospects, reputation, financial condition and results of operation. The competition in Macau clubbing industry is expected to intensify due to the increase in the number of the clubbing venues. The performance of Club Cubic Macau is also affected by the macro environment of Macau.
- (3) 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, amounted to approximately HK\$2.0 million, for the first half of 2017. In the event that our business relationship with these suppliers is terminated, we may not be able to have sufficient supply of products of similar quality and brand name, at sufficient quantity and on similar terms. We may also not be able to find another supplier which could provide similar level of sponsorship.

- (4) We plan to diversify our sources of revenues and mitigate our risks of over-reliance on Club Cubic Macau. We have relatively limited experience in holding events outside Club Cubic Macau. Our outdoor events may be seriously affected by weather conditions or incidents. In addition, when expanding to regions other than Macau, such as Zhuhai, we are relatively not familiar with the local business environment. We may not be able to detect, deter and prevent all instances of infringement, illegal activities or other misconducts committed in such jurisdictions which may harm our reputation and affect our brand name. We may incur substantial start-up and pre-opening costs, such as additional staff costs, rentals, professional fees and promotion expenses, before the opening of new clubs.

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

FOREIGN EXCHANGE EXPOSURE

During the first half of 2017 and the year ended 31 December 2016, most of the Group's transactions are denominated and settled in its functional currency, MOP and reporting currency, HK\$. As historically there has been very limited exchange fluctuation between MOP and HK\$, the Company considered that the Group was not exposed to material foreign currency exchange risk. The Group currently has not implemented any foreign currency hedging policy and the management will consider hedging against significant foreign exchange exposure should the need arise.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Saved for those disclosed in the 2016 Annual Report and this interim report, the Group did not have any material contingent liabilities or capital commitment as at 30 June 2017 and 31 December 2016.

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

Save for those disclosed in the Prospectus, the 2016 Annual Report and this interim report, there were no other significant investments held by the Group as at 30 June 2017 and 31 December 2016, nor were there other material acquisitions and disposals of subsidiaries by the Group during the period/year. Apart from those disclosed in the Prospectus, the 2016 Annual Report and this interim report, there was no other plan authorized by the Board for other material investments or additions of capital assets at the date of this interim report.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group had a total of 172 employees. The total staff costs for the six months ended 30 June 2017 were approximately HK\$17.1 million. 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

Clubbing and Restaurant Business

Leveraging on the success and experience in operating Club Cubic Macau, we will continue to explore opportunities to introduce our own Club Cubic brand and Monkey Museum brand to the PRC. We have identified the potential sub-franchisees for the opening and operation of Monkey Museum in the 1st tier, 2nd tier and 3rd tier cities in the PRC and in the progress of negotiating the terms, however, no legally binding agreement or memorandum of understanding have been signed.

In addition to the expansion plan of Club Cubic Macau and expansion in regions other than Macau, we believe that there are also business potential on the clubbing, entertainment business and restaurant business in Hong Kong.

During the period under review, the Group has identified a new business opportunity. The Group will open a Chinese restaurant with bar concept and clubbing element, which is located in one of the Hong Kong's most iconic landmarks. The restaurant with clubbing element and a fascination harbour panoramic view, which aimed to bring a brand new and unique dining experience to the customers.

Event organising

With the experience to organize the 2016 Road to Ultra event in West Kowloon cultural District in Hong Kong, the 2017 Road to Ultra Hong Kong will continue to touch down in September 2017 in West Kowloon Cultural District with world-class international acts and unparalleled production, bringing music fans & revelers a one-of-the-kind multisensory festival experience. We aim to further increase the revenue generated from the event and therefore, this year the event is guaranteed to be enhanced with unparalleled production and much faster premium services. We are also introducing the new Premium General Admission (PGA), which we have significantly upgraded the General Admission to maximize audiences' experience and convenience including expedited access via PGA express entrance, premium standing area, priority bar access and exclusive restroom.

We believe that our revenue can be boosted and further diversified with the introduction of more brands and increasing the geographic coverage and the new restaurant business. Going forward, the management will continue to identify any suitable business opportunities, taking into account of the funding requirement and the associated business risk.

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 2017, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

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

Name of Director/Chief Executive	Name of Group member/associated corporation	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest
Mr. Yeung Chi Shing (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,233.44 ordinary shares of Welmen (L)	12.3444%
Mr. Au Wai Pong Eric (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,605.56 ordinary shares of Welmen (L)	16.0556%

Notes:

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

Save as disclosed above and so far as is known to the Directors, as at 30 June 2017, none of the Directors and the Company's chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2017, the person (other than the Directors or the Company's chief executives) or company who or which had an interest and short position in the shares and underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest
Welmen	Beneficial owner	1,093,500,000 ordinary shares (L)	60.75%
Yui Tak (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Ocean Concept (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Toprich (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Perfect Succeed (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Mr. Au Ka Wai (Note 2)	Interest held jointly with another person	1,093,500,000 ordinary shares (L)	60.75%

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

Notes:

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

- (4) Ocean Concept is owned as to 88.29% by Toprich and Toprich is wholly owned by Perfect Succeed, which is in turn owned as to 50% by Mr. Choi Yiu Ying and as to 50% by Mr. Choi Siu Kit. By virtue of the SFO, each of Toprich, Perfect Succeed, Mr. Choi Yiu Ying and Mr. Choi Siu Kit is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (5) Kenbridge is wholly owned by Mr. Poon Ching Tong Tommy. By virtue of the SFO, Mr. Poon Ching Tong Tommy is deemed to be interested in 6.75% of the issued share capital of the Company held by Kenbridge.
- (6) Ms. Chan Ting Fai is the spouse of Mr. Choi Siu Kit. By virtue of the SFO, Ms. Chan Ting Fai is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. John Choi is interested.
- (7) Ms. Lee Wan is the spouse of Mr. Au Wai Pong Eric. By virtue of the SFO, Ms. Lee Wan is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Au Wai Pong Eric is interested.
- (8) Ms. Mak Kai Fai is the spouse of Mr. Yeung Bernard Sie Hong. By virtue of the SFO, Ms. Mak Kai Fai is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Yeung Bernard Sie Hong is interested.
- (9) Ms. Lau Sze Mun Charmaine is the spouse of Mr. Poon Ching Tong Tommy. By virtue of the SFO, Ms. Lau Sze Mun Charmaine is deemed to be interested in 6.75% of the issued share capital of the Company in which Mr. Poon Ching Tong Tommy is interested.

Save as disclosed above and so far as is known to the Directors, as at 30 June 2017, 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 2017.

INTEREST IN A COMPETING BUSINESS

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

As also disclosed in the Prospectus, our executive Directors, Mr. Choi Yiu Ying and Mr. Choi Sui Kit, are engaged in certain restaurant and bar business in Hong Kong (the “Retained HK Restaurant and Bar Business”). Below are the details of their interests in companies involved in such business during the six-month period ended 30 June 2017:

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

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

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

Compared to the Group’s proposed restaurant and bar business in Hong Kong which are still at a very preliminary development stage, the potential competition (if any) between the Group’s proposed restaurant and bar business in Hong Kong and the Retained HK Restaurant and Bar Business is not keen.

As disclosed in the Prospectus, our independent non-executive Director, Mr. Tse Kar Ho Simon (“Mr. Tse”), is engaged in the business of musical events and performances organization and other promotional and/or marketing events in Hong Kong, the PRC and other countries. Below are the details of his interests in companies involved in such business during the six-month period ended 30 June 2017:

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

The events organized by Mr. Tse are not limited to music-related events, and even as to music-related events and performances, the music genre is broad and not limited to clubbing music such as electronic music which is the focus of our Group. In addition, Mr. Tse expects that Macau will not be a material market for his event or performance organization business in the foreseeable future. Hence, our Directors are of the view that the potential competition is relatively low and limited.

Saved as disclosed, during the six-month period ended 30 June 2017, none of the Directors or the controlling shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or had any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

Further details on the analysis of the competition are set out in the section headed “Relationship with our Controlling Shareholders” in the prospectus of our Company dated 27 October 2016.

SHARE OPTION SCHEME

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

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

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

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

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

CORPORATE GOVERNANCE PRACTICES

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

As a company which was newly listed on the GEM on 11 November 2016, the Company took the initiative to adopt and comply with the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules since its Listing, except for paragraph A.2.1 of the CG Code which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman of the Board and the chief executive officer of the Company are both performed by Mr. Choi Yiu Ying (Mr. Simon Choi). The Company considers that having Mr. Simon Choi acting as both the chairman and chief executive officer can provide a strong and consistent leadership to the Group and allow for more effective strategic planning and management of the Group. Further in view of Mr. Simon Choi's experience in the industry, personal profile and role in the Group and historical development of the Group, the Company considers that it is to the benefit of the Group in the business prospects that Mr. Simon Choi continues to act as both the chairman and chief executive officer and the Company currently has no intention to separate the functions of chairman and chief executive officer. Following the Listing, the chairman shall at least annually hold meetings with the non-executive Directors, including the independent non-executive Directors, without the executive Directors present and he shall promote a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors.

In addition, CG Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Owing to other business engagements, Mr. Tse Kar Ho Simon, an independent non-executive director and Mr. Au Ion Weng, a non-executive director were unable to attend the annual general meeting of the Company held on 16 June 2017.

Other information on the corporate governance practices of the Company has been disclosed in the corporate governance report contained in the 2016 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 2017.

INTERESTS OF THE COMPLIANCE ADVISER

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

As notified by China Everbright, except for (i) China Everbright's participation as the sole sponsor in relation to the Listing; and (ii) the compliance adviser agreement entered into between the Company and China Everbright dated 11 March 2016, neither China Everbright nor its directors, employees involved in providing advice to the Group or their close associates (as defined under the GEM Listing Rules) had any interest in the Group (including options or rights to subscribe for the securities of the Group) which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules up to 11 February 2017.

As notified by Innovax, during 12 February 2017 to 30 June 2017, except for the compliance adviser agreement entered into between the Company and Innovax dated 9 February 2017, neither Innovax nor its directors, employees involved in providing advice to the Group or their close associates (as defined under the GEM Listing Rules) had any interest in the Group (including options or rights to subscribe for the securities of the Group) which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

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

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six-month period ended 30 June 2017.

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 Ion Weng
Ms. Poon Kam Yee Odilia

Independent non-executive Directors:

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

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

Hong Kong, 9 August 2017