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LUK HING ENTERTAINMENT GROUP

THIRD QUARTERLY REPORT 2019

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

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

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This report, 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.

THIRD QUARTERLY RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three-month and nine-month periods ended 30 September 2019, together with the unaudited comparative figures for the respective corresponding period in 2018, as follows:

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

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	2	57,269	45,222	158,714	145,193
Other income and gain		973	497	3,366	3,737
Cost of inventories sold		(15,567)	(10,477)	(38,449)	(30,542)
Staff costs		(24,301)	(13,362)	(54,990)	(40,625)
Property rentals and related expenses		(2,750)	(5,515)	(8,378)	(16,244)
Advertising and marketing expenses		(7,170)	(4,122)	(17,003)	(20,445)
Other operating expenses		(20,932)	(8,735)	(43,527)	(34,415)
Depreciation and amortisation		(8,315)	(1,714)	(18,020)	(4,953)
Finance costs		(30)	-	(64)	-
(Loss)/profit before taxation		(20,823)	1,794	(18,351)	1,706
Taxation	3	(91)	(314)	(675)	(734)
(Loss)/profit for the period		(20,914)	1,480	(19,026)	972
Other comprehensive (loss)/income:					
Exchange difference on translating of financial statements of overseas subsidiaries		(233)	(346)	4	(253)
Total comprehensive (loss)/income for the period		(21,147)	1,134	(19,022)	719
(Loss)/profit for the period attributable to:					
Owners of the Company		(14,678)	165	(13,716)	(1,672)
Non-controlling interests		(6,236)	1,315	(5,310)	2,644
		(20,914)	1,480	(19,026)	972
Total comprehensive (loss)/income for the period attributable to:					
Owners of the Company		(14,911)	(181)	(13,712)	(1,925)
Non-controlling interests		(6,236)	1,315	(5,310)	2,644
		(21,147)	1,134	(19,022)	719
(Loss)/earnings per share (HK cents)					
— Basic and diluted	4	(0.82)	0.01	(0.76)	(0.09)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2019

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation losses HK\$'000	Option Component of Convertible P-Note HK\$'000	Legal reserve HK\$'000	Exchange reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Sub-total HK\$'000	Attributable to non-controlling interests HK\$'000	Total HK\$'000
As at 1 January 2018	18,000	66,235	-	-	12	82	(6,483)	77,846	(235)	77,611
(Loss)/profit for the period	-	-	-	-	-	-	(1,672)	(1,672)	2,644	972
Other comprehensive loss for the period	-	-	-	-	-	(253)	-	(253)	-	(253)
As at 30 September 2018	18,000	66,235	-	-	12	(171)	(8,155)	75,921	2,409	78,330
As at 1 January 2019	18,000	66,235	378	-	12	(152)	(4,282)	80,191	745	80,936
Loss for the period	-	-	-	-	-	-	(13,716)	(13,716)	(5,310)	(19,026)
Other comprehensive income for the period	-	-	-	-	-	4	-	4	-	4
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	1,186	1,186
Equity-settled share option arrangement	-	-	334	-	-	-	-	334	-	334
Option Component of Convertible P-Note	-	-	-	965	-	-	-	965	-	965
As at 30 September 2019	18,000	66,235	712	965	12	(148)	(17,998)	67,778	(3,379)	64,399

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1.1 Basis of preparation

The condensed consolidated quarterly financial information of the Group has not been audited. The unaudited condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2019 have been prepared in accordance with accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2019 should be read in conjunction with the audited annual financial statements included in the annual report of the Company dated 22 March 2019 (the "2018 Annual Report").

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.

1.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2019 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 16 Leases that requires restatement of previous financial statements. As required by IAS34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2019.

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

1.2 New standards, interpretations and amendments adopted by the Group *(Continued)*

HKFRS 16 Leases

The adoption of HKFRS 16 requires the Company to bring most leases on-balance sheet, recognising new assets and liabilities. HKFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the "right-of-use asset") at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying HKAS 17. HKFRS 16 includes two exemptions from recognising assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items.

The Company has adopted HKFRS 16 with a date of transition of 1 January 2019, and did not early adopt any of HKFRS 16 in previous periods.

The Company has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the historical financial information presented has not been restated — i.e. it is presented, as previously reported, under HKAS 17 and related interpretations.

2. REVENUE

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

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue from contracts with customers: <i>Recognised at a point in time</i>				
Sales of food, and other products	20,975	17,001	59,043	44,228
Sales of beverage	33,193	25,207	88,072	81,251
Sponsorship income	1,650	1,602	6,459	6,804
Entrance fees income	1,197	1,200	4,225	12,033
Others (Note)	117	162	507	727
	57,132	45,172	158,306	145,043
Revenue from other sources:				
Loan interest income	137	50	408	150
	57,269	45,222	158,714	145,193

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

3. TAXATION

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2019	2018	2019	2018
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Current tax	91	314	675	734

- (i) Macau Complementary Tax is calculated at 12% of the assessable profit for the nine-month period ended 30 September 2019 after deducting the exempted amount of MOP600,000. Under the Macau Complementary Tax, for the years of assessment 2019 and 2018, the taxable profits up to MOP600,000 were exempted.

No provision for Hong Kong profits tax is made since the Hong Kong subsidiary has no estimated assessable profit for the three-month and nine-month periods ended 30 September 2019 and 2018, respectively.

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

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

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

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

3. TAXATION *(Continued)*

(ii) (Continued)

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 to 2018 and the Group fails in its appeal, the owner will also bear the relevant additional tax. The additional tax is estimated to be approximately HK\$4.6 million in aggregate for the years of assessment ended 31 December 2013 and 2014 to 2018.

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

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

At the same time, the Macau subsidiary received the ruling from the Administrative Court for the year of assessment ended 31 December 2014 in September 2019.

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

4. (LOSSES)/EARNINGS PER SHARE

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
(Losses)/earnings for the purpose of basic and diluted earnings per share	(14,678)	165	(13,716)	(1,672)
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,800,000	1,800,000	1,800,000	1,800,000
Effect of dilutive potential ordinary shares:				
— Share option (Note)	-	-	-	-
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,800,000	1,800,000	1,800,000	1,800,000

Note: The basic and diluted (losses)/earnings per share for the nine-month period ended 30 September 2019 and 2018 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the nine-month period ended 30 September 2019, the outstanding share options were assumed to have been converted into ordinary shares, basic and diluted loss per share are the same because the share options had no anti-dilutive effect on the basis loss per share. For the nine-month period ended 30 September 2018, diluted losses per share is the same as basic losses per share as there were no potential dilutive ordinary shares in issue.

5. DIVIDEND

The Board does not recommend the payment of an interim dividend by the Company for the nine-month period ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first three quarters of 2019, while the Group continued to engage in the operation of clubbing business “Club Cubic Macau” and the operation of our restaurant “HEXA” and the roast-goosed outlet “Oh-My-Goose”, we have our newly operated clubbing business in Zhuhai City of the PRC which is named “Club Cubic Zhuhai” and has commenced business operation at the end of August 2019, as well as a newly operated restaurant namely “SIXA” in Citygate Outlets of Tung Chung town center, which has commenced business operation at the end of August 2019.

BUSINESS REVIEW

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

Operation of Clubbing Business

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

Investment in Club Cubic Zhuhai extends the Group’s clubbing business development portfolio to regions other than Macau which is in line with the Company’s business strategy to mitigate risk exposure through working with local business partners. With its business operation commenced at the end of August 2019, Club Cubic Zhuhai is still in its ramp up period. Leveraging on the rich experience of club operation, we are tuning our operating strategy integrating the local characteristics to offer customers diversified leisure and entertainment experiences.

Club Cubic Macau maintained stable in sales performance over the reporting period. As always, Club Cubic Macau focuses on its strength to organize featured and regular events entertainment to customers. In the first three quarters of 2019, Club Cubic Macau has organized a total of 37 events including our internal themed party and international live acts, among which our themed party held in April 2019 for celebration of Club Cubic Macau’s 8th anniversary brought the most attention. Tiësto, the Dutch godfather of electronic dance music, was invited to rock the night, together with Australian multi-platinum recording artist, singer and producer, Vassy, as special guest to perform in the party. Furthermore, Club Cubic Macau has launched the new Wednesday Ladies Night Havana Nights, themed parties including Full Moon Party (4th edition) and the first ever indoor splash party Song Cool Go Hydro. The rest of 2019 is expected to see more big names who won this year’s DJ Mag Top 100 DJs poll.

On 26 September 2019, the Company has renewed the Operating Agreement with City of Dreams' operator for a term until March 2027 and the operation of Club Cubic Macau continues to be a long-term business of the Group. In view of the intensive competition of clubbing business in Macau and the suspension of Club Cubic Macau Expansion (please refer to the Company's announcement dated 26 September 2019 for details), the Company considers that HK\$20 million of the unutilized net proceeds shall be allocated to the renovation of Club Cubic Macau including refurbishment of facilities to renew the existing premises and upgrading the equipments, the interior designs and image of the venue. The renovation work is expected to be completed in the second quarter of 2021 which we believe will strengthen the high-end experience of customers and solidify Club Cubic Macau's position as one of the best clubbing hotspots in the heart of Cotai area.

The balance of the unutilized net proceeds of HK\$6.2 million will be allocated to the establishment of the clubbing business in Guangzhou namely "Club Cubic Guangzhou" which the Company has identified the location in Four Seas Plaza at Panyu District, Guangzhou.

Operation of Restaurant Business

During the first three quarters of 2019, our restaurant HEXA achieved 20% growth in sales revenue year-on-year despite Hong Kong retail sales suffered worst decline on record amid the whammy of local social incidents. Accredited by its loyal customers with the impressing stylish interior design and endeavors to serve the best quality of dishes offering authentic Cantonese cuisine with a contemporary twist, HEXA has received awards and accolades from the media and industry bodies, including the "100 Top Tables 2019" by South China Morning Post, and listed as one of the Masterchef Recommendation restaurants by Asia Art of Cuisine Society. In additions, HEXA continues to drive high recognition in the industry and has been invited for a numerous of appreciable organisation for collaborations and interviews. We are proud to be invited from FeedMe Guru, a promotional commissioned by Hong Kong Tourism Board and had shortlisted to be one of the selected restaurants to feature a themed tasting menu. On the other hand, we were also asked for participating "Seafood Loves Sake" promotion campaign 2019 which hosted by JFOODO (the Japan Food Product Overseas Promotion Centre) and will be featured in different media platforms such as TV commercials and infomercial TV programmes on ViuTV, Digital and Social Platforms including but not limited to TimeOut Hong Kong, Facebook and so on. At the same time, we had also been featured as one of the 'TO GO' restaurants in Hong Kong in a special TV travel programme that hosted by Nippon Television Network Corporation (NTV) back in August 2019. We are more than happy that our restaurant is gaining more exposure to the overseas markets and we strive to grow our business continually.

Our new restaurant, namely “SIXA” which is a sub-brand of HEXA, located at Citygate Outlets of Tung Chung town center, was unveiled at the end of August 2019. The restaurant is still in its ramp up period and the sales performance was affected by the disruption to inbound tourism and consumption-related activities caused by the local social incidents in the third quarter of 2019. However, apart from the negative impact caused by the latest social unrest in Hong Kong, the Company is confident in the long-term performance of the restaurant. SIXA has been spotted as one of the highlighted restaurants since it opened in Tung Chung, not only we have brought a brand new concept of nostalgic taste to the nearby residents, positive feedbacks have been received by diners who are appreciated by our restaurant’s environment, quality of food, drinks, services as well as the overall presentations. Number of publications have made their visits at the restaurants since September 2019, including and not limited to OpenRice, U Food, AM730, Sing Tao, U Magazine, The Standard etc. We aim to continue building good reputation through our outstanding quality goods and services to our diners.

FINANCIAL REVIEW

Revenue

Total revenue of the Group slightly increased 9% from HK\$145.2 million in the first three quarters of 2018 to HK\$158.7 million for the same period of 2019 though we have the negative impact from the drop of sales revenue of HK\$12.2 million for not hosting the annual music festival event in 2019 as compared to that of 2018. The growth was mainly contributed by: (i) HEXA achieved a 20% growth in sales revenue from HK\$47.5 million in first three quarters of 2018 to HK\$57.0 million in first three quarters of 2019; (ii) Club Cubic Macau maintained stable with 4% growth in sales revenue from HK\$83.0 million in the first three quarters of 2018 to HK\$86.0 million for the same period of 2019; and (iii) Sales of food and beverages generated from Club Cubic Zhuhai and SIXA, which were opened at the end of August 2019.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It increased by 26% from HK\$30.5 million in the first three quarters of 2018 to HK\$38.4 million in the first three quarters of 2019. This was mainly attributed to the increase in costs of food from HEXA and the costs of food and beverage from the newly operated SIXA and Club Cubic Zhuhai, partially offset by the decrease of beverage costs in Club Cubic Macau and our annual music festival event as it was not held in 2019.

Staff costs represented one of the major components of the Group's operating expenses, which mainly consisted of Directors' emoluments, salaries, retirement benefit scheme contribution and other benefits. Staff cost increased by 35% from HK\$40.6 million in the first three quarters of 2018 to HK\$55.0 million in the same period of 2019. This was mainly due to (i) the additional staff recruited in HEXA to cope with the increase in sales; (ii) increase in staff cost in Club Cubic Macau caused by staff salary adjustment; and (iii) additional staff costs incurred for the newly operated SIXA and Club Cubic Zhuhai.

Property rentals and related expenses decreased by 48% from HK\$16.2 million in the first three quarters of 2018 to HK\$8.4 million in the same period of 2019. This is mainly due to the adoption of HKFRS 16 Leases which has become effective from 1 January 2019. Under the application of HKFRS 16, the Group's operating leases were removed and replaced by the model where a right-of-use asset and a corresponding liability were recognised for all leases, except for short-term leases and leases of low value assets. The right-of-use asset was initially measured at cost and subsequently measured at cost less accumulated depreciation. The lease liability is initially measured at the present value of the lease payments that are not paid and subsequently adjusted for interest and lease payments. The application of new requirements resulted in the changes in measurement and presentation from under property rentals to depreciation and interest for lease payments. Excluding the accounting effect of adopting HKFRS 16 Leases, the Group's actual rentals and related expenses increased by 25% to HK\$20.2 million in the first three quarters of 2019. This was primarily caused by the increase in percentage rental charged along with the increase in sales revenue as compared to that of 2018 for HEXA and the additional rentals and related expenses incurred for the newly operated SIXA and Club Cubic Zhuhai.

For the same reason explained above, the application of HKFRS 16 Leases has resulted in the increase in depreciation and amortization by 260% from HK\$5.0 million in the first three quarters of 2018 to HK\$18.0 million in the first three quarters of 2019. Excluding the accounting effect of adopting HKFRS 16 Leases, the actual depreciation expense increased by 46% to HK\$7.3 million in the first three quarters of 2019. This was mainly caused by the additional depreciation expenses incurred by the newly operated SIXA and Club Cubic Zhuhai.

Advertising and marketing expenses decreased by 17% from HK\$20.4 million in the first three quarters of 2018 to HK\$17.0 million in the same period of 2019. This was attributed to the decrease in performer fees incurred for Club Cubic Macau and reduction in promotion and marketing expenses as we did not host our annual music festival event in 2019 as compared to that of last year, partially offset by the additional marketing expenses incurred for the newly operated SIXA and Club Cubic Zhuhai.

Other operating expenses increased by 26% from HK\$34.4 million in the first three quarters of 2018 to HK\$43.5 million in the same period of 2019. The increase was mainly caused by: (i) the write-off of HK\$2.1 million for the preliminary planning and design costs for the expansion model of Club Cubic Macau due to the suspension of Club Cubic Macau expansion (please refer to the Company's announcement dated 26 September 2019 for details); (ii) additional HK\$6.8 million operating expenses incurred by the newly operated SIXA and Club Cubic Zhuhai; and (iii) increase of HK\$7.2 million professional fee for corporate transactions, sales coupon expense, notional interest expense arising from the adoption of HKFRS16 Leases and miscellaneous expenses such as uniform, repair and maintenance; (iv) partially offset by the reduce in HK\$7.7 million expenses for not hosting our annual music festival event in 2019 as compared to that of 2018.

Loss Attributable to Owners of the Company

The Group recorded a net loss of approximately HK\$19.0 million for the first three quarters of 2019 as compared to the net profit of approximately HK\$1.0 million recorded for the corresponding period in 2018. Net loss attributable to owners of the Company was approximately HK\$13.7 million for the first three quarters of 2019 compared to a net loss of HK\$1.7 million attributable to owners of the Company for the corresponding period in 2018.

The aforesaid turnaround from profit to loss position of the Company was primarily attributable to:

- (i) The pre-opening and startup costs of our newly operated Clubbing business in Zhuhai City of the PRC which is named "Club Cubic Zhuhai" and has commenced business operation at the end of August 2019;
- (ii) the pre-opening and startup costs of our newly operated restaurant, namely "SIXA" in Citygate Outlets of Tung Chung town center, which has commenced business operation at the end of August 2019;
- (iii) the weak sales performance of "SIXA" hit by the decline of visitors from mainland China and the weak consumer sentiment caused by the continuous social incidents in Hong Kong; and
- (iv) the write-off of the preliminary planning and design costs for the expansion model of Club Cubic Macau due to the suspension of Club Cubic Macau expansion.

OUTLOOK

The uncertainties in the global economy and the latest social incidents in Hong Kong affected consumer sentiment. In the circumstances that the overall business environment is expected to be full of challenges, the Company will continue to focus on its core business and manage to stabilize its business through adopting a prudent finance management approach with proactive implementation of cost control initiatives improving the operating performances.

In the Macau clubbing business, the Company has renewed the Operating Agreement with City of Dreams' operator for a term until March 2027 and the operation of Club Cubic Macau continues to be a long-term business of the Group. It is expected that the competition of Macau clubbing industry remains strong. The switch of strategy from the expansion to renovation of Club Cubic Macau allows the Company to focus on its existing operation while stepping up to define the customers behavior and improve customer satisfaction in order to provide a high-end clubbing experience to them and creates the value of its Macau clubbing business. We continue to strengthen our competitiveness and market position as a leading clubbing business operator in Macau.

The business of HEXA achieved steady growth. The Company is committed to realizing the development strategy of brand diversification and actively develops its self-owned brand to broaden the revenue base. SIXA which is a sub-brand of HEXA, has commenced business operation at the end of August 2019. When Hong Kong tourism industry rebound, the Company expects that the location of SIXA will bring a larger pool of potential customer and will expand its income sources and benefit to the Company in the long run.

On the base of our stable core business, the Company will continue seeking opportunities for the business expansion. During the period, the Company has cooperated with different new business partners and set up Club Cubic Zhuhai and Club Cubic Guangzhou in PRC. We will hold on the strategy working with local strategic partners who are strong in operating and management of the local business. The co-operation with the new partners is a good way to localization, which is conducive to the Company's development in the Mainland China.

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

As at 30 September 2019, 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	1,234.44 ordinary shares of Welmen (L)	12.3444%
Mr. Au Wai Pong Eric (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,605.56 ordinary shares of Welmen (L)	16.0556%
Mr. Au Kai Wai (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,604.44 ordinary shares of Welmen (L)	16.0444%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company or the relevant associated corporation.
- (2) On 2 March 2016, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing entered into an acting in concert confirmation whereby each of them confirmed that since 31 January 2011, they acted in concert with each other when dealing with matters concerning operation management, accounts, finance and treasury and human resources management of the Group, details of which are set out in the Prospectus. On 20 August 2019, Mr. Yeung Bernard Sie Hong sold all his shares in Welmen to Mr. Choi Kuen Kwan (father of Mr. Choi Yiu Ying and Mr. Choi Siu Kit). As such, pursuant to the acting in concert arrangement, each of Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Choi Kuen Kwan and Mr. Yeung Chi Shing is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (3) Welmen is owned as to 30.3111% by Yui Tak Investment Limited ("Yui Tak") and Yui Tak is wholly owned by Ocean Concept Holdings Limited ("Ocean Concept"). Ocean Concept is owned as to 88.29% by Toprich Investment (Group) Limited ("Toprich") and Toprich is wholly owned by Perfect Succeed Limited ("Perfect Succeed"), which is in turn owned as to 50% by Mr. Choi Yiu Ying and as to 50% by Mr. Choi Siu Kit. By virtue of the SFO, each of Mr. Choi Yiu Ying and Mr. Choi Siu Kit is deemed to be interested in 30.3111% of the issued share capital of Welmen held by Yui Tak and 60.75% of the issued share capital of the Company held by Welmen.

Save as disclosed above and so far as is known to the Directors, as at 30 September 2019, none of the Directors and the Company's chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 2019, the person (other than the Directors or the Company's chief executives) or company who or which had an interest and short position in the shares and underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

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

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

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) On 2 March 2016, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing entered into an acting in concert confirmation whereby each of them confirmed that since 31 January 2011, they acted in concert with each other when dealing with matters concerning operation management, accounts, finance and treasury and human resources management of the Group, details of which are set out in the Prospectus. On 20 August 2019, Mr. Yeung Bernard Sie Hong sold all his shares in Welmen to Mr. Choi Kuen Kwan (father of Mr. Choi Yiu Ying and Mr. Choi Siu Kit). As such, pursuant to the acting in concert arrangement, each of Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Choi Kuen Kwan and Mr. Yeung Chi Shing is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (3) Welmen is owned as to 30.3111% by Yui Tak and Yui Tak is wholly owned by Ocean Concept. By virtue of the SFO, each of Yui Tak and Ocean Concept is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (4) Ocean Concept is owned as to 88.29% by Toprich and Toprich is wholly owned by Perfect Succeed, which is in turn owned as to 50% by Mr. Choi Yiu Ying and as to 50% by Mr. Choi Siu Kit. By virtue of the SFO, each of Toprich, Perfect Succeed, Mr. Choi Yiu Ying and Mr. Choi Siu Kit is deemed to be interested in 60.75% of the issued share capital of the Company held by Welmen.
- (5) Kenbridge is wholly owned by Mr. Poon Ching Tong Tommy. By virtue of the SFO, Mr. Poon Ching Tong Tommy is deemed to be interested in 6.75% of the issued share capital of the Company held by Kenbridge.

- (6) Ms. Chan Ting Fai is the spouse of Mr. Choi Siu Kit. By virtue of the SFO, Ms. Chan Ting Fai is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Choi Siu Kit is interested.
- (7) Ms. Lee Wan is the spouse of Mr. Au Wai Pong Eric. By virtue of the SFO, Ms. Lee Wan is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Au Wai Pong Eric is interested.
- (8) Ms. Lau Sze Mun Charmaine is the spouse of Mr. Poon Ching Tong Tommy. By virtue of the SFO, Ms. Lau Sze Mun Charmaine is deemed to be interested in 6.75% of the issued share capital of the Company in which Mr. Poon Ching Tong Tommy is interested.

Save as disclosed above and so far as is known to the Directors, as at 30 September 2019, no other interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine-month period ended 30 September 2019.

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.

Mr. Choi Siu Kit, is engaged in certain restaurant and bar business in Hong Kong (the “Retained HK Restaurant and Bar Business”). Below are the details of his interests in companies involved in such business as at 30 September 2019:

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

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

As Mr. Choi Siu Kit had engaged the Retained HK Restaurant before the Group’s Listing and its entrance into the restaurant and bar business in Hong Kong, such business are not covered by the Deed of Non-competition entered between the Controlling Shareholders and the Company.

Our independent non-executive Director, Mr. Tse Kar Ho Simon (“Mr. Tse”), is engaged in the business of musical events and performances organization and other promotional and/or marketing events in Hong Kong, the PRC and other countries. Mr. Tse also engages in the business of food and beverage since 17 May 2019. Below are the details of his interests in companies involved in such business as at 30 September 2019:

Name of entity	Nature of interests
Best Shine Entertainment Limited	Director and interest in approximately 92.5% of its issued share capital
Best Shine (China) Entertainment Limited	Director and interest in approximately 99.9% of its issued share capital
Sky Treasure Entertainment Limited	Director and interest in approximately 83.3% of its issued share capital
J-Pot Limited	Director and interest in approximately 20% of its issued share capital

The events organized by Mr. Tse are not limited to music-related events, and even as to music-related events and performances, the music genre is broad and not limited to clubbing music such as electronic music which is the focus of our Group. With regard to his engagement in the business of food and beverage, it is a restaurant set up in Hong Kong which serves mainly hot-pot to customers. In addition, Mr. Tse expects that Macau will not be a material market for his event or performance organization business in the foreseeable future and the hot-pot restaurant is different from those restaurants operated by the Group. Hence, our Directors are of the view that the potential competition is relatively low and limited.

Saved as disclosed, as at 30 September 2019, none of the Directors or the controlling shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or had any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

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 nine-month ended 30 September 2019.

BOARD OF DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

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

Hong Kong, 7 November 2019