LUK HING ENTERTAINMENT GROUP

ANNUAL REPORT 2018

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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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

Mr. Chan Ting Bond Michael *(Chairman)*
Mr. Lam Wai Chin Raymond
Mr. Au Wai Pong Eric

Remuneration Committee

Mr. Lam Wai Chin Raymond *(Chairman)*
Mr. Tse Kar Ho Simon
Mr. Au Wai Pong Eric

Nomination Committee

Mr. Choi Yiu Ying *(Chairman)*
Mr. Lam Wai Chin Raymond
Mr. Tse Kar Ho Simon

COMPANY SECRETARY

Mr. Wong Man Lung Clement

COMPLIANCE OFFICER

Mr. Choi Siu Kit

AUTHORISED REPRESENTATIVE

Mr. Choi Siu Kit
Mr. Wong Man Lung Clement

COMPLIANCE ADVISER

Innovax Capital Limited

AUDITORS

HLB Hodgson Impey Cheng Limited

LEGAL ADVISORS

Hong Kong Law

L&C Legal LLP
in Association with Jingtian & Gongcheng

Macau Law

Leong Hon Man Law Office

PRC Law

Jingtian & Gongcheng

PRINCIPAL BANKERS

Bank of East Asia Limited
Bank of China Limited Macau Branch

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Sheung Wan
Hong Kong

CORPORATE INFORMATION

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8052

WEBSITE

www.lukhing.com

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the board of directors, I am pleased to report that the Group has achieved good performance in 2018. After years of effort to strengthen our competitiveness and market position as a leading clubbing business operator in Macau, I am encouraged by the growth we achieved for Club Cubic Macau in 2018 on the strength of foundations built over the years. Further to that, I am impressed by the growth momentum achieved by our newly start up restaurant business, HEXA.

Our result this year demonstrated that we are transforming into a stronger and better positioned company. In 2018, the Group's EBITDA was HK$10.4 million, representing a substantial growth of 200% compared to the EBITDA of loss HK$10.5 million in 2017. Most impressively, the Group managed to turn from a net loss of HK$13.5 million in 2017 to net profit of HK$3.2 million this year. The strong financial performance was mainly contributed by the first full year operation of our first restaurant, HEXA and the strong performance of the Group's core clubbing business, Club Cubic Macau.

BUSINESS ENVIRONMENT AND DEVELOPMENT

Clubbing Business

Club Cubic Macau maintained continued growth in sales performance despite that the competition in Macau clubbing industry was intensified due to the increase of the clubbing venues in Macau and the surrounding regions. We see our events playing an important role in differentiating us from our competitors and maintaining our competitiveness, as our events often attracting customers from Mainland China and Hong Kong. Over the past business years, we have successfully created sustainable growth from the crowd of club goers.

In 2018, we have generated a total of 62 events including ten top 100 world renowned international electronic music DJs, producers and artists, who were ranked in DJ Mag's Top 100 DJs poll. We had the top 3 talents such as Martin Garrix (DJ Mag Top 100 DJs #1), Dimitri Vegas & Like Mike (DJ Mag Top 100 DJs #2), Hardwell (DJ Mag Top 100 DJs #3) which were iconic shows to draw big crowds from Macau, Hong Kong and Mainland China as well as media interests.

Regular events

Club Cubic Macau carry on to introduce three weekday series featuring our resident DJs with music genre. Our existing regular events, "Ladies' Night" and "Girls' Night Out" parties, which were held every Wednesday and Friday night with our resident DJs, and a regular event hip-hop music night, Turn Up Hip Hop Night, which was held every Thursday, to offer varieties and different genre of electronic music to enjoy.

Weekday	Regular Events
Every Wednesday	Ladies' Night
Every Thursday	Turn Up Hip Hop Night
Every Friday	Girls' Night Out

Featured events

Among the 62 events, we have organized a total of 33 events of internal themed parties and international live acts. Themed parties included Full Moon Party in September to celebrate mid-autumn festival, festival themed parties such as Halloween Party in October, Christmas Eve and New Year's Eve Party in December. Besides electronic dance music, other variety shows include live dance performances and partnering with global music festival brand such as Ultra Music Festival, Electric Daisy Carnival and ISY Music Festival to promote Asia music festivals.

Date	Themed Parties
4 March 2018	Hardwell (DJ Mag Top 100 DJs #3)
11 May 2018	Martin Garrix (DJ Mag Top 100 DJs #1)
4 August 2018	Wolfpack (DJ Mag Top 100 DJs #35)
29 September 2018	Tujamo (DJ Mag Top 100 DJs #46)
12 October 2018	Yellow Claw (DJ Mag Top 10 DJs #47)
29 December 2018	Dimitri Vegas & Like Mike (DJ Mag Top 100 DJs #2)

Restaurant Business

HEXA, our first fine dining Cantonese Cuisine restaurant with mixed entertainment activities located at Harbour City, opened in the last quarter of 2017. With its sweeping 270-degree harbor view, impressed by its stylish interior design based on the scenes of 1960s Hong Kong. The world-renowned interior designer, Steve Leung utilized a variety of patterns, colors and textures of materials to create a stylish yet classical atmosphere which has been honoured with the "Asia Pacific Interior Design Awards (APIDA) 2018 — Food Space Category — Gold", the "a&d Trophy Awards 2018 — Best Bar & Restaurant (Professional) — Certificate of Excellence", and the "IIDA Best of Asia Pacific Design Awards 2018 — Restaurants, Lounges & Bars Category — Winner".

"Eating with all your senses. Flavorful food and fine wines bring you back to the good old days of Hong Kong." — HEXA brings unique dining experience to its diners. With fresh ingredients sourced from around the world integrated with innovative ideas, HEXA strives to serve the best quality of dishes offering authentic Cantonese cuisine with a contemporary twist.

HEXA is not just simply a dining restaurant, its outdoor areas surrounded by Victoria Harbour, and the spacious garden with installations allows diners to enjoy unforgettable moments away from the hustle and bustle of the city. Moreover, it is a fabulous venue for hosting events. In 2018, 74 events were hosted in HEXA including wedding parties, press conferences, product launch parties and movie shooting. Our corporate clients consist of international brands such as Mercedes-Benz.

On top of the recognition of its loyal customers, HEXA also receive awards and accolates from media and industry bodies, including the "Best-Ever Dining Awards 2018" by the Weekend Weekly Magazine, and listed as one of the Top Five restaurant for numerous times by OpenRice Hong Kong Top Chart.

LETTER TO THE SHAREHOLDERS

OUTLOOK

2019 promises to be a year of beginnings. The Group managed to turnaround from loss to profit making in 2018. Our Clubbing business continued to perform satisfactory showing year-on-year improvement in the backdrop of increasing competition arising from more clubbing venues in Macau and the surrounding regions. We will continue to strengthen our leading market position by brand building, improving our quality of customer service and attracting internationally renowned DJs to perform in Club Cubic Macau. Buttressed by the opening of the Hong Kong-Zhuhai-Macau Bridge making tourism more convenient and accessible, particularly from Mainland China, boosted visitation of Macau which will positively impact our business in the years to come. As the growth of the electronic music industry continues to move at a fast pace in the region, it goes to show the rising potential of the nightlife scene in Macau, where big acts we book will continue to draw increasing crowds to Macau. We have been expanding the scale of Club Cubic Macau to cope with the business expansion. The expansion will provide more space endowing customers with a wealth of sophisticated club luxury experience.

Since its opening in the last quarter of 2017, our first fine-dining restaurant HEXA has been playing a more and more important role to the Group's revenue contribution. It's stylish interior design crafted by the world-renowned interior designer, Steve Leung, has been bestowed with prestigious awards like the "Asia Pacific Interior Design Awards (APIDA) 2018 — Food Space Category — Gold". We will continue to renovate and inject creativity to our menus, maintain our high quality services and event management capabilities to bring a more extensive dining and entertainment experience to our diners.

The remarkable performance of HEXA provides a solid foundation for the Group to establish a sub brand of HEXA, namely "SIXA" at Citygate Outlets of Tung Chung town center. Developed from the concept of HEXA, this new restaurant will provide contemporary Cantonese cuisine with a more casual set up. Tung Chung being a transportation hub for the Hong Kong-Zhuhai-Macau bridge provides convenient connections between Lantau and major cities situated on the Pearl River Delta region, will be further fueled to develop into a tourism and hospitality cluster for the upcoming decades. This marks an exciting step of the Group to expand the network leveraging on the established brand and experience of HEXA.

At the same time, we have deepened our focus to expand our business to Mainland China. Our investment in Club Cubic Zhuhai will be a good beginning for the Group to grasp the market of the Greater Bay Area beyond Macau, where we believe enormous business potential supported by the Government policies and infrastructure development. We are confident that our unique experience and network in the industry will definitely bring the Group promising business development in Mainland China.

In closing, I would like to express my appreciation for the management and all the staff for their efforts dedicated over the years and the ongoing support from the shareholders, Board of Directors and partners. Without their supports, we would not have been able to achieve what were done over the years. In the coming years, there is still much the Company must do to realize our long-term ambition to strengthen the leading market position. Nevertheless, we are confident that with your continued support, the Company will be able to continue the success in the year ahead.

Mr. Choi Yiu Ying
Chairman and Chief Executive Officer
Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2018, the Group continued engaged in the operation of clubbing and organizing music-related featured events, as well as our newly operation of restaurant business. The Group also engaged in money lending operation targeting borrowers in the food, beverage and entertainment-related industry.

BUSINESS REVIEW

Sales of beverage and entrance fees from retail customers of our clubbing business remained as the Group's the primary stream of revenue while we saw a significant growth and contribution to the Group's total sales revenue from our restaurant, HEXA. Revenue contribution from the money lending operation is insignificant as the business is in small scale.

Operation of clubbing business and organizing featured events

Club Cubic Macau maintained stable on-going growth in sales income. Sales of beverage and entrance fees from retail customers used to be the primary revenues generated from our clubbing business and event organizing. We also received sponsorship income from corporate customers and beverage suppliers, comprising fee for displaying their logos and products during events and incentive based on our purchase amount from the beverage suppliers. We organized music-related featured events[1] to offer music entertainment to our customers. We see our events playing an important role in differentiating us from our competitors and maintaining our competitiveness. In 2018, we have generated a total of 62 events including ten top 100 world renowned international electronic music DJs, producers and artists, who were ranked in DJ Mag's Top 100 DJs poll. Among the 62 events, we have organized a total of 33 events of internal themed parties and international live acts. Themed parties included Full Moon Party in September to celebrate mid-autumn festival, festival themed parties such as Halloween Party in October, Christmas Eve and New Year's Eve Party in December which had attracted big crowds from Macau, Hong Kong and Mainland China as well as media interests. Customer visit[2] increased slightly in 2018 as compared to that of 2017. Nevertheless, we managed to drive up the average customer spending[3] to approximately HK$750 per head by promoting more middle to high price champagne products to customers.

Our annual music festival event held on 9 June 2018 at AsiaWorld-Expo, though the attendees were lower than expected which might be due to the first time moving from conventionally outdoor to indoor performance, yet the event still attracted overseas attendees from Asia and around the world offering music lovers a multisensory experience with state-of-the-art audiovisual production.

1 Featured events refer to events which we specifically organize and not our regular events, and are usually held on Fridays, Saturdays, or during festivals and major functions.

2 Customer visit refers to the number of entries into the club premises. For the avoidance of doubt, if a guest entered into and left the club several times in one night, it will be counted as multiple number of customer visits.

3 Average customer spending is calculated by dividing our total income from retail customers including (i) sales of beverage, food and other products; (ii) entrance fees income; and (iii) cloakroom income by our customer visit.

Operation of Restaurant Business

Our first restaurant, HEXA maintained strong momentum in growth in sales income and customer visit since its opening in the last quarter of 2017. Its stylish yet classic interior design has garnered numerous awards including the "Asia Pacific Interior Design Awards (APIDA) 2018 — Food Space Category — Gold", the "a&d Trophy Awards 2018 — Best Bar & Restaurant (Professional) — Certificate of Excellence", and the "IIDA Best of Asia Pacific Design Awards 2018 — Restaurant, Lounges & Bars Category — Winner". With full year operations in 2018, HEXA has achieved approximately 80% growth in average monthly customer visits compared to that of last year, with average customer spending of approximately HK$400 to HK$500 per head.

On the solid foundation of success model of our first HEXA, the Group has engaged to set up a sub brand of HEXA, namely "SIXA" at Citygate Outlets of Tung Chung town center which is expected to be opened in the second half of 2019. Tung Chung being a transportation hub for the Hong Kong-Zhuhai-Macau bridge provides convenient connections between Lantau and major cities situated on the Pearl River Delta region, will be further fueled to develop into a tourism and hospitality cluster for the upcoming decades. This marks an exciting step of the Group to extend the network leveraging on the established brand and experience of HEXA.

Further to that, we have launched our new roast-goose outlet, namely "Oh-My-Goose" in May 2018. Different to the style of HEXA, Oh-My-Goose was designed as a trendy, fast and casual dining place targets on trend-seeking young consumers.

FINANCIAL REVIEW

Revenue and Other Income and Gain

Total revenue of the Group increased by 51% from HK$137.4 million in 2017 to HK$206.9 million in 2018 despite the negative impact of the drop of HK$7.4 million from the total revenue of our annual music festival event as compared to that of last year. The increase in revenue was primarily attributable to the revenue contribution from the restaurant business, HEXA and Oh-My-Goose. Besides, our clubbing business performed better than last year and achieved an increase of HK$12.2 million, representing 11% growth in total revenue of the clubbing business. This was explained by the increase in sales of beverages in Club Cubic Macau driven by the effort to promote middle to high price champagne products to customers. In addition, sponsorship income increased by HK$2.5 million, up 43% year-over-year benefited from the large-scale events held in 2018.

Other income and gain increased by HK$0.9 million, up 25% year-over-year. This was mainly contributed by the consultation fee charged on the joint-venture company of the Group.

Expenses

Cost of inventories sold mainly represented the costs of beverage, food and tobacco products sold. It increased by 68% from HK$26.6 million in 2017 to HK$44.6 million in 2018. This was mainly attributable to the cost of food sold of the newly operated HEXA and Oh-My-Goose, and the increased cost of beverage in proportion to the sales revenue increment of Club Cubic Macau, partially offset by the decrease of cost of our annual music festival event.

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 40% from HK$39.9 million in 2017 to HK$55.8 million in 2018. The increase was primarily caused by additional staff cost incurred for the newly operated HEXA and Oh-My- Goose, and the notional expense share-based compensation loss of the granted share options.

Property rentals and related expenses increased by 50% from HK$17.5 million in 2017 to HK$26.3 million in 2018. The increase was mainly due to the additional rentals and related expenses for the newly operated HEXA and Oh-My-Goose, and increase in contingent rentals paid to the owners of Club Cubic Macau partially offset by the lower rental cost of indoor venue for our annual music festival event.

Advertising and marketing expenses increased by 12% from HK$24.5 million in 2017 to HK$27.4 million in 2018. This was mainly due to the combined effect of (i) higher performer fees incurred for Club Cubic Macau for the larger scale of featured events held in 2018 as compared to 2017; (ii) increase in promotion and marketing expenses from our newly operated HEXA and Oh-My-Goose; (iii) partially offset by the decline of marketing expense for our annual music festival event.

Other operating expenses increased by 9% from HK$42.9 million in 2017 to HK$46.7 million in 2018. The increase was mainly due to (i) the additional operating expense incurred in HEXA and the start-up costs of Oh-My-Goose (ii) the provision for impairment of account receivables of HK$0.5 million related to an individual account receivable of Club Cubic Macau which Club Cubic Macau has taken legal action against the individual to recover the outstanding receivable and (iii) partially offset by the savings of performers fee related to our annual music festival event and the decrease of legal and professional fee for post-listing compliance.

Depreciation and amortization increased by 139% from HK$2.8 million in 2017 to HK$6.7 million in 2018. The increase was explained by depreciation of plant and equipments of the newly operated HEXA and Oh-My-Goose.

Profit Attributable to Owners of the Company

The Group made positive result in 2018. Profit attributable to Owners of the Company was HK$2.2 million for the year ended 31 December 2018 while we recorded a loss of HK$9.3 million attributable to Owners of the Company in 2017. The turnaround from loss to profit was mainly contributed by the strong performance of HEXA in its first full year of operations and the increase in customer visit and average customer spending leading to positive impact on the performance of Club Cubic Macau which were partially offset by the negative impact from the loss incurred in our annual music festival event caused by lower attendees due to the change from conventionally outdoor to indoor performance this year and the start-up costs of Oh-My-Goose outlet opened in May 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Below is a summary of the key financial ratio:

		As at 31 December	
	Notes	**2018**	**2017**
Current ratio	1	2.8	2.8
Quick ratio	2	2.6	2.7
Gearing ratio	3	31.6%	31.2%

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 Group continues to maintain healthy position in liquidity and gearing. The Company shares were listed on GEM on 11 November 2016 and 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 financed its business expansion and new business opportunities of the clubbing business mainly from the net proceeds. The remaining unused net proceeds as at 31 December 2018 were placed as interest bearing deposits with licensed bank in Hong Kong and Macau. The Group financed the operation of restaurant business and its daily operations from internally generated cash flows.

As at 31 December 2018, the Group had cash and cash equivalents of HK$41.0 million (31 December 2017: HK$49.2 million) and did not have any outstanding amounts of long-term bank borrowings or any loan arrangement containing any covenant, except an outstanding amount of HK$0.6 million from the overdraft facility and an unutilized overdraft facility of HK$5.4 million, for which the Company provided its corporate guarantee. The level of cash and cash equivalents and the recurring cash inflows from our core business can equip the Group to develop and expand its operation.

CHARGES ON ASSETS

As at 31 December 2018 and 2017, 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. An analysis of the utilization of the net proceeds up to 31 December 2018 is set out below:

Business objective and strategy		Amount of usage of net proceeds up to 31 December 2018	
		Planned HK$' million	Actual HK$' million
(i)	Expansion of the scale of Club Cubic Macau	32.3	6.0
(ii)	Organizing events in venues other than Club Cubic Macau	13.8	13.8
(iii)	Expansion in regions other than Macau	13.0	13.0
(iv)	Working capital and general corporate use	6.5	6.5
Total		65.6	39.3

As at 31 December 2018, we had fully utilized our proceeds for organizing events in venues other than Club Cubic Macau, for expansion in regions other than Macau, as well as for working capital and general corporate use. However, in relation to expansion of the scale of Club Cubic Macau, as disclosed in our 2017 Annual Report and 2018 Interim Report, the owner of club premises, COD, had delayed to formally approve our expansion layout plan and it took longer processing time to get approval from the relevant Macau authorities when preparing statutory submission for the licences and construction permit. Accordingly, the expansion plan had not progressed as originally expected and the first phase expansion cannot be opened by January 2018, resulting in less actual spending. We currently anticipate that the opening of first phase expansion will be further delayed until a solid timetable in relation to the licence matter is obtained, which is agreed by the owner of the club premises. The remaining unused net proceeds as at 31 December 2018 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 31 December 2018
(i) Expansion of the scale of Club Cubic Macau	— both the first phase and second phase expansion area open for business (subject to approval of relevant licences) — 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	As stated above, the opening of first phase expansion had been further delayed and we are unable to open both first phase and second phase expansion by January 2018 as originally expected. We are currently coordinating with the owner of club premises and the Macau authorities to work out an updated and solid timetable.
(ii) Organizing events in venues other than Club Cubic Macau	— execute planned event(s) held outside Club Cubic Macau	An outdoor event was organized in Hong Kong in the third quarter of 2017 and an annual music festival event was organized in the second quarter of 2018

Business objective and strategy	Business plan and activity	Actual business progress up to 31 December 2018
(iii) Expansion in regions other than Macau	— 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	(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 identified a sub-franchisee for the opening and operation of Monkey Museum in Changsha in January 2017. The territory of the exclusive master franchising agreement was extended to include Singapore and Malaysia in June 2017. (4) We established a PRC company with other business partners for the operation of Club Cubic Zhuhai, which is expected to be opened in 2019. Pursuant to the relevant terms of investment agreement, we had contributed RMB4.5 million in aggregate, comprising loan contribution and capital contribution, to the PRC company, which was held as a strategic investment and financed by the net proceeds. (5) We formed a Hong Kong subsidiary with other investors for the operation of HEXA, our first restaurant, with total investment up to HK$25 million. Pursuant to the relevant agreement and announcement, we effectively hold around 60% interest and it was partially financed by the net proceeds. HEXA was opened in the last quarter of 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, and our corresponding measures:

Principal risks and uncertainties	Measures
(i) 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 the owner of club premises 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). As disclosed in our 2016 Annual Report, the expected opening of the first phase expansion was firstly delayed to January 2018, which was agreed by the owner of club premises. As disclosed in our 2017 Annual Report and 2018 Interim Report, the owner of club premises had delayed to formally approve our expansion layout plan and it took longer processing time to get approval from the relevant Macau authorities when preparing statutory submission for the licences and construction permit. Accordingly, the first phase expansion cannot be opened by January 2018. We currently anticipate that the opening of first phase expansion will be further delayed until a solid timetable in relation to the licence matter is obtained, which is agreed by the owner of the club premises. 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 further unforeseen delays before the opening and operation of the expansion area, including but not limited to difficulties and delay in the process of obtaining the relevant licenses and approvals.	(1) The Company will continue to monitor the progress of the expansion plan of Club Cubic Macau. A project team, composed of staff experienced in handling licensing matters, had been formed. The team will closely work with the relevant staff of the owner of club premises and the government authorities and report its progress to the executive directors regularly. Several plans have been formulated with the aim to speed up the approval process. (2) 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 risks and uncertainties.

Principal risks and uncertainties	Measures
(ii) 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. (iii) We made our purchases mainly from our largest supplier and our five largest suppliers. The purchases from these suppliers either under annual contract or individual purchase order, and have not entered into any long-term contracts. We also recorded sponsorship income from our largest supplier, amounted to approximately HK$8.2 million in 2018. In the event that our business relationship with these suppliers is terminated, we may not be able to have sufficient supply of products of similar quality and brand name, at sufficient quantity and on similar terms. We may also not be able to find another supplier which could provide similar level of sponsorship.	(1) The Company will continue to review and fine-tune its strategy when organizing music- related featured events in Club Cubic Macau, including the number of events held, the scale of the events and resources required (such as DJ/artist fee and other marketing expenses), as well as the timing, such that our resources could be optimized to stimulate the sales of Club Cubic Macau at the appropriate time. (2) In addition to the expansion plan, we will also carry out renovation to maintain the competitiveness of Club Cubic Macau. (3) We have explored opportunities to diversify our operation such that we can reduce our reliance on Club Cubic Macau and our largest suppliers. We achieved remarkable progress in 2018, including the organizing of our annual music festival event, newly operation of restaurant business HEXA and Oh-My-Goose, engaged in the new lease of opening a sub brand of HEXA, namely "SIXA" at Citygate Outlets of Tung Chung town center and investment in the operation of Club Cubic Zhuhai. We will continue to look for new opportunities to expand our business network.
(iv) 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 and our events may be seriously affected by weather conditions or incidents. In addition, when expanding to regions other than Macau, we are relatively not familiar with the local business environment. We may not be able to detect, deter and prevent all instances of infringement, illegal activities or other misconducts committed in such jurisdictions which may harm our reputation and affect our brand name. We may incur substantial start-up and pre-opening costs, such as additional staff costs, rentals, professional fees and promotion expenses, before the opening of new outlets.	(1) For our annual music festival event held outside Club Cubic Macau, appropriate insurance coverage , such as event cancellation insurance, is purchased at a reasonable cost. Emergency medical service, event security service, harm reduction outreach and support, as well as event, risk and crowd management advisory, were also engaged. (2) 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.

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 year ended 31 December 2018, a significant portion of the Group's transactions are denominated and settled in its functional currency, MOP and reporting currency, HK$. As historically there has been very limited exchange fluctuation between MOP and HK$, the Company considered that the Group was not exposed to material foreign currency exchange risk. The Group currently has not implemented any foreign currency hedging policy but we normally specify a more favourable exchange rate in the respective contracts with overseas suppliers and customers. The management will consider hedging against significant foreign exchange exposure should the need arise.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Saved for those disclosed in this annual report, the Group did not have any other contingent liabilities or capital commitment as at 31 December 2018.

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

Save for leasehold improvements for Club Cubic Macau and Hexa, there were no other significant investments held by the Group for the year ended 31 December 2018. There were no other material acquisitions and disposals of subsidiaries by the Group for the year ended 31 December 2018. For future plans for material investments or capital assets, the Group plans to open "SIXA" a sub brand of HEXA in the second half of 2019 and Club Cubic Zhuhai in 2019. The Group is also seeking to expand its clubbing business to other regions other than Macau.

DIVIDEND

The Board does not recommend the payment of dividend by the Company for the year ended 31 December 2018.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. Choi Yiu Ying (蔡耀陘) (with former names Choi Siu Man (蔡紹文) and Choi Siu Ying (蔡兆鈃)) ("Mr. Simon Choi"), aged 42, was appointed as our Director on 19 January 2016. He was re-designated as our executive Director and our chairman of the Board on 2 March 2016, and is primarily responsible for overall strategic planning and supervising daily operation of our Group. He has joined our Group as our chief executive officer since May 2010, with responsibilities to, among others, develop business plans, manage staff members, oversee daily operation and cost and budget control. He has also been a director of certain subsidiaries of the Group. Mr. Simon Choi is the chairman of the nomination committee of the Board.

Mr. Simon Choi has over 17 years of experience in the restaurant and bar and clubbing industry in Hong Kong and Macau. Since January 2001, he has invested in and was responsible for the management and operation of various bars and restaurants, such as (i) Shelter Lounge in Causeway Bay, Hong Kong (from January 2001 to December 2015), (ii) Census Lounge in Causeway Bay, Hong Kong (from October 2005 to December 2015), (iii) House Lounge in Causeway Bay, Hong Kong (from July 2006 to December 2015), (iv) Habitat Japanese Restaurant in Wanchai, Hong Kong (from December 2008 to April 2015), and (v) Shelter Italian Bar & Restaurant in Causeway Bay, Hong Kong (since May 2013), and he was also involved in the management of Old Cubic, acting as a managing director from its opening in December 2008 until May 2010.

Mr. Simon Choi received a bachelor degree of engineering from the City University of London, United Kingdom in June 2001. He is the elder brother of Mr. John Choi, one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Perfect Succeed Limited ("Perfect Succeed") and Welmen Investment Co. Ltd ("Welmen"), and a director and an indirect shareholder of Toprich Investment (Group) Limited ("Toprich"), Ocean Concept Holdings Limited ("Ocean Concept") and Yui Tak Investment Limited ("Yui Tak").

Mr. Choi Siu Kit (蔡紹傑) ("Mr. John Choi"), aged 41, was appointed as our Director on 30 November 2015. He was re-designated as our executive Director on 2 March 2016. He was also appointed as the compliance officer of our Company on 2 March 2016 and is currently the authorized representative of the Company. Mr. John Choi is primarily responsible for overall strategic planning and supervising marketing and entertainment aspects of our Group. He has joined our Group as our managing director since May 2010. He has been responsible for overseeing daily operation, developing business strategies, building client relationships and business reputation, liaising with suppliers and relevant government departments and implementing the overall business strategies. He has also been a director of certain subsidiaries of the Group.

Mr. John Choi has over 17 years of experience in the restaurant and bar and clubbing industry in Hong Kong and Macau. Since January 2001, he has invested in and was responsible for the management and operation of various bars and restaurants, such as (i) Shelter Lounge in Causeway Bay, Hong Kong (from January 2001 to December 2015), (ii) Census Lounge in Causeway Bay, Hong Kong (from October 2005 to December 2015), (iii) House Lounge in Causeway Bay, Hong Kong (from July 2006 to December 2015), (iv) Habitat Japanese Restaurant in Wanchai, Hong Kong (from December 2008 to April 2015), and (v) Shelter Italian Bar & Restaurant in Causeway Bay, Hong Kong (since May 2013), and he was also involved in the management of Old Cubic, acting as a managing director from its opening in December 2008 until May 2010.

Mr. John Choi received a bachelor degree in engineering from Queen Mary and Westfield College, University of London, United Kingdom in July 2001. He is the younger brother of Mr. Simon Choi, one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Perfect Succeed and Welmen, and a director and an indirect shareholder of Toprich, Ocean Concept and Yui Tak.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yeung Chi Shing (楊志誠), aged 47, was appointed as our Director on 19 January 2016. He was re-designated as our executive Director on 2 March 2016, and is primarily responsible for overall administration of our Group. He joined our Group as our administrative director since January 2011 and has been responsible for, among others, directing activities of subordinate staff, providing leadership to the managers of the administration, supervising administrative matters of the club and developing company policies.

Prior to joining our Group, Mr. Yeung served as a sales executive in PCCW Limited, a company listed on the main board of the Stock Exchange (stock code: 0008) which is principally involved in provision of telecommunications and information technology, from November 1989 to September 2004, where he was responsible for marketing of telecommunication products and services. From March 2005 to January 2008, Mr. Yeung worked at Mocha Clubs, Melco Crown Gaming (Macau) Limited, an operator of casino gaming and entertainment casino resort facilities, as a floor manager of gaming operations department where he supervised the operation of the gaming floor.

Mr. Yeung attended secondary school education and graduated from Man Kiu College, Hong Kong, in July 1988. He is one of the Controlling Shareholders and an indirect shareholder of our Company, and a director and a shareholder of Welmen.

Non-executive Directors

Mr. Au Wai Pong Eric (區偉邦) ("Mr. Eric Au"), aged 50, was appointed as a non-executive Director of our Company on 2 March 2016, and is primarily responsible for overseeing management and strategic planning of our Group. Mr. Eric Au is a member of each of the audit committee and remuneration committee of the Board

Mr. Eric Au has extensive experience in real estate management and investment. From July 1996 to March 2000, he joined Chi Cheung Investment Company Limited (stock code: 0112), (now known as LT Commercial Real Estate Limited), the shares of which are listed on the main board of the Stock Exchange which is primarily engaged in property development, as a project manager where he directed the project development department in project management, marketing and sales activities. During the eight years from April 2000 to July 2008, Mr. Eric Au worked in the real estate investment industry and had served as a project director in Global Gateway, L.P. and the Pioneer Global Group Limited as well as the general manager in Gaw Capital, where he had been responsible for project management, acquisitions and asset management in general. From July 2008 to June 2017, he served as the regional director of LaSalle Investment Management, being a private equity investment arm of Jones Lane LaSalle Limited, a real estate investment management firm.

Mr. Eric Au graduated from the Rhode Island School of Design, the United States, with a bachelor degree of fine arts in June 1991 and a bachelor degree of architecture in May 1992. Mr. Eric Au has been a member of Hong Kong Institute of Architects since May 1998. He is one of the Controlling Shareholders and an indirect shareholder of our Company and a shareholder of Welmen.

Mr. Au Ka Wai (歐家威), aged 42, was appointed as a non-executive Director of our company on 9 August 2018, and is primarily responsible for overseeing management and strategic planning of our Group. Mr. Au is the son of Mr. Au Ion Weng, a non-executive Director up to 9 August 2018.

Mr. Au has over 10 years of working experience in real estate and tourism industries. He is the executive directors of J&C Real Estate Property Limited and Rich City Travel Agency Limited, both are private companies incorporated in Macau. Mr. Au also has extensive experience in retail management and general management.

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

Ms. Poon Kam Yee Odilia (潘錦儀), aged 58, was appointed as a non-executive Director of our Company on 2 March 2016, and is primarily responsible for overseeing management and strategic planning of our Group. Ms. Poon is the sister of Mr. Poon Ching Tong Tommy, who is the sole shareholder of Kenbridge Limited, which is a shareholder of the Company.

Ms. Poon has extensive experience in marketing and promotion as well as in human resources management and consultancy. From April 1988 to January 1994, she served Rothmans (Far East) Limited with her last position as the marketing manager. She then joined Tait (HK) Ltd from February 1994 to August 1996 as a sales and marketing director. From September 1996 to July 1997, she served as a promotion and packaging director in Pepsico. Inc. During August 1997 to December 1998, she worked as a marketing director for Carlsberg Brewery Hong Kong. From May 1999 to April 2005, she was employed by Hudson Global Resources (HK) Ltd with her last role as a country manager. During April 2005 to October 2005, she then joined Agilent Technologies Hong Kong Ltd as the staffing manager. From November 2005 to July 2013, she worked at Talent 2 Shanghai Co., Ltd and held positions of operations director of the recruitment managed services division and managing director in China. From January 2014 to June 2017, she served as a director in Motiva Consulting Limited where she oversees the overall management of the company. Since August 2015, she served as a director of the Chapman Consulting Group Limited and since June 2017, she was appointed as a non-executive Director of Vistar Holdings Limited, which is listed on GEM (stock code: 8535) on 12 February 2018, where she is primarily responsible for overseeing the management and strategic planning.

Ms. Poon graduated with a bachelor's degree in business administration from the University of East Asia Macau, Macau in September 1985 and later received a master degree of science, majoring in business studies, from the University of Salford, United Kingdom in July 1987. In June 1990, she obtained a diploma in marketing from the Chartered Institute of Marketing, United Kingdom.

Independent non-executive Directors

Mr. Lam Wai Chin Raymond (林偉展), aged 48, was appointed as an independent non-executive Director of our Company on 18 October 2016 taking effect on 11 November 2016, and is primarily responsible for providing independent judgment to the Board. Mr. Lam is the chairman of the remuneration committee of the Board and a member of each of the audit committee and the nomination committee of the Board.

Mr. Lam became a barrister and solicitor of the Supreme Court of the Australian Capital Territory, Australia and of the Supreme Court of Victoria, Australia in October 1993 and November 1993, respectively. He also qualified as a barrister in the High Court of Australia in October 1993. He became a solicitor of the Supreme Court in England and Wales in August 1994 and a solicitor of the High Court of Hong Kong in October 1994. Since June 1999, he has been a partner of Messrs. Lam & Lai and serves as a member of the Advisory Panel on Disability Discrimination Ordinance and the Appeal Panel (Housing). Mr. Lam obtained a bachelor degree in laws from the Australian National University, Australia in September 1993 and a master degree in laws from the University of Melbourne, Australia in March 1996.

Mr. Chan Ting Bond Michael (陳定邦), aged 38, was appointed as an independent non-executive Director of our Company on 18 October 2016 taking effect on 11 November 2016, and is primarily responsible for providing independent judgment to the Board. Mr. Chan is the chairman of the audit committee of the Board.

Mr. Chan has extensive experience in finance. He commenced his career with PricewaterhouseCoopers in Sydney, Australia as a senior associate from February 2000 to February 2006. He then relocated to Hong Kong and joined KPMG as a manager from March 2006 to August 2007. Mr. Chan later joined Ping An of China Asset Management (Hong Kong) Company Limited from August 2007 until March 2011. After serving as vice president in Global Business Development of Ping An of China Asset Management (Hong Kong) Company Limited, he joined Jardine Matheson Group in June 2011. During the tenure, Mr. Chan first served as the corporate finance manager in Jardine Cycle & Carriage Limited in Singapore from June to December 2011, followed by his appointment as the corporate planning director in Dairy Farm Group from January 2012 to March 2014. Mr. Chan was appointed to Zung Fu Group in April 2014, currently serving as general manager, strategy and operations. Mr. Chan was appointed as an independent non-executive Director of Integrated Waste Solutions Group Holdings Limited (Stock Code: 00923) on 1 May 2018 where he also served as Chairman of Remuneration Committee, a member of the Audit Committee, ,Nomination Committee; and Investment Committee.

Mr. Chan became a member of the Chartered Accountants Australia and New Zealand in January 2006 and was awarded fellowship in December 2015. He has been admitted as a member of the Hong Kong Institute of Certified Public Accountants since July 2008 and become a fellow of the institute since July 2015. Mr. Chan became a chartered financial analyst of the CFA Institute in September 2010, qualified as a member of the Chartered Alternative Investment Analyst Association in June 2010, and became qualified as a financial risk manager by the Global Association of Risk Professionals in April 2010. Mr. Chan graduated from the University of New South Wales with a bachelor's degree of commerce (majoring in accounting and finance) in April 2003. In June 2012, he obtained his Executive Master of Business Administration from the Kellogg School of Management of Northwestern University, the United States and the Hong Kong University of Science and Technology.

Mr. Tse Kar Ho Simon (謝嘉豪), aged 62, was appointed as an independent non-executive Director of our Company on 18 October 2016 taking effect on 11 November 2016, and is primarily responsible for providing independent judgment to the Board. Mr. Tse is a member of each of the remuneration committee and the nomination committee of the Board.

Mr. Tse accumulated extensive experience in organising, logistics, marketing, and coordination of musical events and performances and other promotional and/or marketing events over 18 years. He has served as a director since December 1998 and holds approximately 92.5% shareholding interest in Best Shine Entertainment Limited, and as a director since January 2013 and holds approximately 99.9% shareholding interest in Best Shine (China) Entertainment Limited, and as a director since March 2011 and holds approximately 83.3% shareholding interest in Sky Treasure Entertainment Limited, where he have been engaged in organising, logistics, marketing, and coordination of concerts and other promotional and/or marketing events through these companies. Milestone events of his industry experience include participation in marketing activities in 2008 Beijing Olympics under which Best Shine Entertainment Limited received two awards, namely, "2008 Worldwide Marketing & Commercial Excellence — Best Implementation of Marketing Communication Campaign — Brand COCA-COLA — China — Beijing Olympic Games — 2008 Best in Class" and "2008 Worldwide Marketing & Commercial Excellence — Best Brand Marketing Asset Program — China — COCA-COLA — Beijing Olympic Games — 2008 Best in Class" from Coca-Cola (China) Beverage Ltd for its marketing efforts. Additionally, during December 2010 to December 2011, Best Shine Entertainment Limited, under directorship of Mr. Tse, also coordinated logistics and marketing activities for 1/2 Jacky Cheung Century Tour in Macau, Shenzhen and Guangzhou, a tour concert which was awarded the Guinness World Records as the largest combined audience for a live act in 12 months.

Mr. Tse attended secondary school education in Mansfield College in Hong Kong.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can benefit from good corporate governance. Therefore, the Group strives to achieve sound corporate governance standards in order to maintain the trust and confidence of customers, suppliers and employees, as well as other stakeholders. We believe that this can create long term value for the shareholders of the Company and is beneficial for the Group's sustainable growth.

The Company adopted and complied with the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules since its Listing, except for paragraph A.2.1 of the CG Code which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman of the Board and the chief executive officer of the Company are both performed by Mr. Choi Yiu Ying ("Mr. Simon Choi"). The Company considers that having Mr. Simon Choi acting as both the chairman and chief executive officer can provide a strong and consistent leadership to the Group and promote more effective strategic planning and management of the Group. Further in view of Mr. Simon Choi's experience in the industry, personal profile and role in the Group and historical development of the Group, the Company considers that it is to the benefit of the Group in the business prospects that Mr. Simon Choi continues to act as both the chairman and chief executive officer and the Company currently has no intention to separate the functions of chairman and chief executive officer.

BOARD OF DIRECTORS

The leadership, control and supervision of the Company is vested in the Board, which is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance, approving the consolidated financial statements and directing and supervising the management of the Group. The Board delegates to the senior management the powers and responsibilities to conduct the Group's day-to-day management and operations and to organise the implementation of the resolutions of the Board. The Board has been regularly provided management with update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group. Where necessary, all Directors can have access to all relevant information and obtain the advice and services of the Company Secretary. The Directors may, where appropriate, seek independent professional advice to ensure compliance with the procedures of the Board and all applicable rules and regulations, at the Company's expense. The Company has arranged appropriate insurance cover in respect of its legal action against its Directors.

The Board is also responsible for the corporate governance functions under the paragraph D.3.1 of the CG Code and will review and monitor the corporate governance principles and practices to ensure compliance. The chairman of the Board takes primary responsibility for ensuring that good corporate governance practices and procedures are established.

Mr. Au Ion Weng resigned as non-executive Director with effect from 9th August 2018 and Mr. Au Ka Wai was appointed as non-executive Director at the same day. Except for disclosed herein, the composition of the Board has not been changed throughout the year ended 31 December 2018. The Board currently comprises 9 Directors, including 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors, and the Director's details during the year and up to the date of this annual report are as set out below:

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

Non-executive Directors
Mr. Au Wai Pong Eric
Mr. Au Ka Wai *(appointed on 9 August 2018)*
Ms. Poon Kam Yee Odilia
Mr. Au Ion Weng *(resigned on 9 August 2018)*

Independent Non-executive Directors
Mr. Lam Wai Chin Raymond
Mr. Chan Ting Bond Michael
Mr. Tse Kar Ho Simon

An updated list of Directors identifying their roles and functions has been published on the websites of the Company and the Stock Exchange. The profiles of the Directors, including relationship between Board members, are set out in the section "Profiles of Directors and Senior Management" of this annual report.

BOARD DIVERSITY POLICY

The Board has adopted the Board diversity policy since 10 November 2016 and reviewed its Board composition on a yearly basis. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board. The Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The nomination committee reviews and monitors the implementation on the Board diversity policy periodically and the Board diversity policy has been published on the website of the Company up to the date of this annual report.

Three of the Board members, representing one-third of the Board, are independent non-executive Directors and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise, in accordance with Rule 5.05(1)(2) and 5.05A of the GEM Listing Rules. All of the independent non-executive Directors have been appointed for an initial term of one year and none of the independent non-executive Directors has served the Company for more than 9 years. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent. All independent non-executive Directors are identified as such in all corporate communications of the Company containing the names of the Directors.

The Company has entered into a service agreement with each of our executive Directors for an initial term of three years whereas all of the non-executive Directors have been appointed for an initial term of two years. All the Directors are subject to retirement by rotation and eligible for re-election in accordance with the Company's articles and association. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company. At the forthcoming annual general meeting of the Company, each of Mr. Au Ka Wai, Mr. Lam Wai Chin Raymond, Mr. Chan Ting Bond Michael and Mr. Tse Kar Ho Simon will retire from office as Directors and will offer themselves for re-election. Separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of each of them.

TRAINING, INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors of the Company on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Model Code"). Having made specific enquiries in writing to the Directors, each of the Directors confirmed that he/she had complied with the Model Code in connection with the Company's securities for the year ended 31 December 2018. The Company has also established written guidelines on no less exacting terms than the Model Code regarding securities transactions by relevant employees (including the employees and Directors of the subsidiaries or holding company) who are likely to possess inside information of the Company and/or its securities.

BOARD MEETINGS

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. For the year ended 31 December 2018, the Company has held four Board meetings in total. The attendance record of each Director at Board meetings, audit committee meetings, remuneration committee meeting, nomination committee meeting and general meeting during the year ended 31 December 2018 is set out in the following table:

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

Notes:

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

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

BOARD COMMITTEES

As an important part of sound corporate governance practices and for supervision of the overall affairs of the Company in various areas, the Board has established three Board committees, namely, the audit committee, the remuneration committee and the nomination committee. All Board committees have respective specific terms of reference clearly defining their powers and responsibilities, which are posted on the websites of the Company and the Stock Exchange. All the Board committees should report to the Board on their decisions or recommendations made, and where appropriate, can seek independent professional advice to perform their duties at the Company's expense.

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The nomination committee is chaired by the chairman of the Board, Mr. Simon Choi, and consists of Mr. Lam Wai Chin Raymond and Mr. Tse Kar Ho Simon, both of whom are independent non-executive Directors. The primary functions of the nomination committee include but not limited to: (i) making recommendations to the Board on matters relating to appointment of Directors; (ii) assessing the independence of independent non-executive Directors; and (iii) reviewing the structure, size and composition of the Board, and monitoring the implementation of the abovementioned Board diversity policy regularly. Up to the date of this annual report, the nomination policy (the "**Nomination Policy**") has been adopted by the nomination committee in assistance to the Board in making recommendations to the Board on the appointment of Directors of the Company and succession planning for Directors. The Nomination Policy provides the key selection criteria and principles of the nomination committee in making any such recommendations.

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

(a) reputation for integrity;

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

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

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

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

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

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

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

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

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

Two meetings were held during the year ended 31 December 2018. All members attended the meetings. The members of the nomination committee reviewed the composition of the Board, the retirement and re-election of Directors and made recommendation to the Board.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with paragraph B.1.2 of the CG Code. The remuneration committee is chaired by our independent non-executive Director, Mr. Lam Wai Chin Raymond, and consists of another independent non-executive Director, Mr. Tse Kar Ho Simon and a non-executive Director, Mr. Au Wai Pong Eric. The primary functions of the remuneration committee include but not limited to: (i) making recommendations to our Directors on the policy and structure for remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director shall be involved in deciding his or her own remuneration.

Two meetings were held during the year ended 31 December 2018. All members attended the meetings. They made recommendation to the Board regarding the Company's remuneration policy and the remuneration package of all directors (excluding his own remunerations) of the Company. No Director was involved in deciding his own remuneration during the year under review.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraph C.3.3 and C.3.7 of the CG Code. The audit committee is chaired by our independent non-executive Director, Mr. Chan Ting Bond Michael, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules, and consists of another independent non-executive Director Mr. Lam Wai Chin Raymond and a non-executive Director, Mr. Au Wai Pong Eric. The primary functions of the audit committee include but not limited to: (i) assisting the Board in providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management systems; (ii) overseeing the audit process; and (iii) performing other duties and responsibilities as assigned by the Board.

Four meetings were held by the Audit Committee during the year ended 31 December 2018. Please refer to the attendance sheet table under Board Meeting for the individual attendance of each member. The Group's quarterly reports, interim report and the annual report had all been reviewed by the audit committee and recommendation was provided to the Board for approval.

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENT AND REMUNERATION OF AUDITORS

The Directors acknowledge their responsibility for the preparation of the Group's consolidated financial statements, which are prepared on a going concern basis. Such responsibility of the Directors, and the responsibilities of the auditors in respect of the consolidated financial statements are set out in the report of the auditors of this annual report.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 and recommended approval to the Board.

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by HLB Hodgson Impey Cheng Limited ("HLB") whose term of office will expire upon the forthcoming annual general meeting of the Company. The audit committee has recommended the Board the reappointment of HLB as the auditors of the Company at the forthcoming annual general meeting.

A breakdown of the remuneration (including disbursement) paid/payable to the external auditors (including its affiliates) of the Company in respect of audit and non-audit services provided to the Company during the year is set out below:

Items	Fees (HK$'000)
Audit services and disbursements	900
Total	900

COMPANY SECRETARY

Mr. Wong Man Lung Clement was appointed as the company secretary of the Company on 1 June 2018 pursuant to Rule 5.14 of the GEM Listing Rules. Mr. Wong is a solicitor as defined in the Legal Practitioners Ordinance in Hong Kong. Mr. Wong's primary contact person at the Company is the chairman of the Board, Mr. Simon Choi. Mr. Wong has confirmed that he has taken no less than 15 hours of relevant professional training during the year ended 31 December 2018 in compliance with Rules 5.15 of the GEM Listing Rules.

DIVIDEND POLICY

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

— the Articles of Association of the Company;

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

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

— the investment and operating requirements of the Company; and

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is ultimately responsible for the risk management of the Group and has full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information and ensuring compliance of the operating activities with laws and regulations. The control system is to be reasonably safeguards, if not absolute assurances, against material misstatement or loss, and is designed to manage, rather than eliminate the risk of failing to achieve objective. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks. During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems.

A risk management team consists of, among others, our executive Directors and management who in general have experiences in club or restaurant management over eight years, was formed at operational level. The risk management team oversees the implementation and monitoring our internal control, which includes but not limited to (i) quarterly risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) quarterly review of the implementation of the risk management plans and fine tune when necessary. The management also pays particular attention to potential risk exposure in conducting its monthly and quarterly operation analysis and takes corresponding countermeasures and issues pre-warnings against certain material risks. The Company endeavours to integrate its internal control and risk management with its day-to-day operations, and proactively adopts Information Technology ("IT") to assimilate the internal control and risk management processes into the IT system.

Internal Control System

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

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

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

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

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

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

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

The executive Directors closely monitored the Group's business and corporate developments and events so that potential inside information would be identified promptly. The Company regulates the handling and dissemination of inside information by restricting access to inside information to a limited number of employees and parties on a need-to-know basis. Employees who are in possession of inside information are conversant with their obligations to preserve confidentiality. External parties, such as financial printer, are required to sign confidentiality agreement or non-disclosure agreement. Inside information remains confidential until the disclosure of such information is appropriately approved and the dissemination of such information is efficiently and consistently made. Inside information shall be disseminated via the electronic publication system operated by the Stock Exchange before the information is released via other channels, such as the press or posting on the Company's website.

Save as disclosed above, the Board has conducted a review of the effectiveness of the risk management and internal control system of the Group pursuant to C.2.1 of the CG Code and considers them effective and adequate. With a view of further enhancing the Group's internal control system on an ongoing basis, the Group will continue to engage external professional advisers to conduct review and consider to establish a formal in-house internal audit department where necessary from time to time, taking into account the development of the business and the scale and complexity of our operation in future.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders, including the holding of forthcoming general meetings and corporate communications published on the Stock Exchange and information disclosed in the Company's website at www.lukhing.com.

Constitutional Documents

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

Shareholders' Rights

There are no provisions governing shareholders' rights to put forward proposals or move resolutions at a general meeting under the M&A or the laws of the Cayman Islands. Shareholders who wish to put forward proposals or move a resolution may however, convene an extraordinary general meeting (the "EGM") to be called by the Board by following the procedures below.

Procedures for Shareholders to convene an EGM (including making proposals/moving a resolution at the EGM) to be called by the Board:

- Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including putting forward proposals or moving a resolution at the EGM.

- Eligible Shareholder(s) who wish to require an EGM to be called by the Board for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Room 1505, 15/F, Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong, for the attention of the Company Secretary.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda of the EGM including the details of the business(es) proposed to be transacted at the EGM, signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not convene an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the M&A, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

When necessary, Shareholders can send their enquiries and concerns to the Board by addressing them to the Group's principal place of business in Hong Kong at Room 1505, 15/F., Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong, by post or by fax to (852) 2402 1244, for the attention of the Company Secretary.

Shareholders are also encouraged to participate in general meetings. Board members, in particular, either the chairmen of Board committees or their delegates, appropriate management and external auditors will attend annual general meetings to answer Shareholders' questions.

INTRODUCTION

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

This Report is prepared mainly with reference to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") contained in Appendix 20 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("HKEx"), covering the ESG related information of our Company; and the reporting period is the same as the fiscal year of the Company. The purpose of this ESG report is to disclose an overall review to shareholders the management measures and performance of the Company in 2018 in terms of the environment, society and governance.

A. DEFINITION AND INTERPRETATION

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

• **Group**	:	refers to LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED and its subsidiaries
• **ESG**	:	means ENVIRONMENTAL, SOCIAL & GOVERNANCE
• **Appendix 20 or ESG Reporting Guide**	:	refers to the Appendix 20 — Environmental, Social and Governance Reporting Guide of the Listing Rules
• **KPIs**	:	means "Key Performance Indicators"
• **Listing Rules**	:	means the Rules Governing the Listing of Equity Securities on the GEM of the Stock Exchange of Hong Kong Limited
• **HKEX**	:	means The Stock Exchange of Hong Kong Limited

B. OVERVIEW

(I) Scope and Reporting Period

This is the third Environmental, Social and Governance ("ESG") report of Luk Hing Entertainment Holdings Limited (the "Company"), together with its subsidiaries (referred to as the "Group"), reviewing and disclosing its ESG performance in accordance with the guidelines outlined in Appendix 20 Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") of the Rules Governing the Listing of Securities on GEM of HKEX, for the period from 1 January 2018 to 31 December 2018 (the "Reporting Period").

(II) The Group's Vision, Commitments, Management and Actions

It is our vision to be a leading provider and operator in our business segments in Asia. Our main business is the operation of the Cubic nightclub in Macau and expansion of the Cubic brand into new nightclub opportunities and the organization of music-related events in Macau, Hong Kong and China. During the Reporting Period, we expanded the operation of new food and beverage establishments with the opening of HEXA and Oh-My-Goose in Hong Kong in late 2017 and May 2018 respectively.

We are committed to being a socially and environmentally responsible corporation, promoting sustainable development and creating value for the Group's shareholders, clients, supporters, employees, other stakeholders, general public as well as the natural environment.

The Group supports that the ESG areas and aspects listed in the ESG Reporting Guide are significant considerations for the short and long-term operations of its business. We strive to operate our business with the objectives to: lessen the impact on the environment; provide a safe and pleasant working environment for our employees and clients; comply with legal and regulatory requirements; adhere to high ethical standards, and contribute back to the communities in which we operate.

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

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

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

The Group is committed to conducting its business in a transparent, equitable, legal and socially responsible manner, and continues to care about the impact of its daily operation on the environment and neighbouring communities, and to make efforts to meet the interests of all stakeholders, economy, environment, society and corporate governance on a fine and fair balance.

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

The Group is proud to report that its ESG Reporting was also honoured with an award for outstanding achievement in 2018 by BDO.

1. ENVIRONMENTAL MATTERS AND RELATED KPIs

Given the special nature of our business, our activities do not generate any hazardous emissions and wastes, but will occasionally cause noise and light pollution, safety issues and inconvenience during the operation of our events to participants and neighboring communities. As a responsible corporation, the Group abides by all the local environmental laws and regulations and is committed to environmental protection, pollution prevention and minimization. The Group has implemented policies and taken measures to minimize adverse impacts on and to prevent pollution to the environment, and to be energy, water, and other resources usage efficient.

1.1 Emissions and Wastes — Policies and Compliance with Relevant Laws

(i) Noise Emission

The operation of Club Cubic and music related events naturally generates constant music noise emission especially in the evening period. Club Cubic was designed from the beginning to be almost sound proof to outsiders. We have taken careful measures to install noise pollution materials and structures to minimize noise pollution in music-related showplaces. The locations of Club Cubic and our music-related events, as are our new restaurant establishments, are in commercial and not in residential areas, which assists to minimize disturbance to the general public. We at all times comply with all relevant noise pollution and control laws, ordinances, rules and regulations of Hong Kong and Macau in the structural construction and operation of our sites in order to ensure noise emission is under strict control. The Group did not receive any complaints related to noise emission in 2018, which is consistent with our performance in previous years.

(ii) Light Emission

Club Cubic and music related events also generate constant light emission especially in the evening period. However, since all our operations and activities are conducted inside the club and showplaces, the light emission should not and do not cause any disturbance to the public. The Group has complied with all the relevant laws, ordinances, rules and regulations of Hong Kong and Macau in our structural construction and operation to ensure all the lighting systems are properly installed to minimize light emission. The Group did not receive any complaints related to light emission in 2018, which is consistent with our performance in previous years.

(iii) Air Emissions

(a) Non-Hazardous Air Emissions

The operations and activities of the Group do not generate any hazardous greenhouse gases emission, and the only non-hazardous gas emission of Carbon Dioxide (CO_2) is generated directly from the use of gas in cooking at our restaurants and indirectly from the use of electricity across all our operations.

During the Reporting Period, the Group fully commenced its restaurant operations which have added to the Group's total electricity consumption. Overall, the Group's operations generated 968 tonnes of CO_2 indirectly from the use of electricity, which was 569 tonnes more than 2017 as a result of the commencement of the two new restaurants. However, on a like for like basis, our Club Cubic and office operations achieved a reduction of 102 tonnes, or 13.1% compared with 2017, which was the direct result of measures taken to reduce energy consumption. Given that this reduction was achieved while we also increased our Club Cubic business turnover by 8.65% in 2018 over 2017, this achievement was testimony to our management strategy and training paying off.

(b) Hazardous Air Emissions

The Group owns and runs three vehicles to provide transport to senior management and VIP customers. During the Reporting Period, a total of 32,229 g NOx, 455.13 g SOx, and 1,478 g PM were generated. Although the amounts were insignificant, the Group is considering to minimize these hazardous gases emission by replacing the fossil fuel-based vehicles with electric ones in future.

(c) Hazardous and Non-Hazardous Wastes Emissions

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

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

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

During the Reporting Period, the Group had not received any complaints or warning notices from relevant government authorities on our wastes discharge and disposal.

(d) *Mitigation Measures on Emissions and Results*

Given the nature of our business activities, the Group does not produce much hazardous and non-hazardous emissions. However, as a responsible corporation, we are conscious of the effects our operations may have on the environment at all times and constantly strive to maximise energy efficiency and minimise waste. We fully comply with the Environmental Law No. 2/91/M especially on section 1 of article 8, everyone is entitled to air quality suiting basic health and well-being, whether in public places, residential areas, workplaces and others, and section 3 of article 8, any installation, machine or means of transportation which may affect the air quality must be equipped with a device or other mean that can ensure compliance with legal emission standards. Furthermore, we have integrated eco-friendly measures to reduce the environmental impact of our daily operations. We encourage the economic and efficient use of resources, while enhancing our recycling efforts to prevent the waste of resources. We have taken the following measures to reduce the emission of greenhouse gas, discharges into water and land, and generation of hazardous and non-hazardous wastes, as well as to save energy in our daily operations:

- Encourage the establishment of a waste-classification system and the practice of recycling used papers and double-sided printing in workplace;
- Reduce unnecessary business trips and promote the use of information technology such as video conference;
- Encourage our staff to take public transportation and minimize the use of private vehicles and taxi ;
- Adjust the temperature of our offices appropriately and switch office equipment to energy-saving mode, such as the automatically turn off printers and computers after a period of inactivity, to economize the use of electricity;
- Utilize temperate and lighting controls and efficient energy bulbs where possible in our club and restaurant establishments so as to reduce energy inefficiencies;
- Usage of grease traps to prevent cooking oil seeping into the waste water system;
- Utilize recycled packaging and products in our restaurant operations; and
- Encourage water-saving habits of our staff.

When organizing our events, we take into account the suitability of the premises or places to the nature of the activities or events to be held, particularly in terms of floor area, hygiene, safety, location and respect for environmental balance including noise and light pollution. In the event that we have to undertake minor alterations to the natural environment due to event requirements, we will conduct environmental rehabilitation as soon as possible.

As a result, the Group had not had any fines or warning notices in relation to air emission and wastes discharges from the relevant environmental agencies in Hong Kong and Macau in 2018.

1.2 Use of Resources — Policies on Efficient Use of Resources

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

Although the Group's activities and operations do not generate much environmental hazards, we are committed to act environmentally responsibly and aim at minimizing the impact on the environment. We promote smart usage to reduce consumption of electricity, fresh water, and paper through the introduction of various measures disclosed above and in last year's ESG reporting.

(i) Electricity and Fuel Consumption

To reduce energy consumption, the Group regularly monitors its electricity consumption across all parts of its operations from Club Cubic and our head office to our new restaurant facilities. For the Reporting Period, the Group consumed an aggregate of 1,215,929 Kwh of electricity of which 833,585 Kwh was for Club Cubic operations, 361,628 Kwh was for our restaurant operations and 20,716 Kwh was for the head office. While this was an aggregate increase of 186,852 Kwh or 18.16% than 2017 (2017: 1,029,077), this also included the full year contribution of the restaurant operations for the first time which added 361,628 Kwh. On a like-for-like basis, despite a 8.65% increase in overall business turnover of Club Cubic in 2018 over 2017, we actually reduced our consumption by 25.15%. This was a remarkable achievement of our energy saving measures, which the Group will for sure continue to implement and we will endeavour to continue this performance into our restaurant operations.

(ii) Water Consumption

Water is supplied from the city central water systems in Hong Kong and Macau without any interruptions. Prior to the commencement of restaurant operations, the Group did not consume material amount of water in its operations and on a like-for like basis, Club Cubic continued to successfully reduce its consumption of water with a 42% reduction in water usage to 2,204 cubic metres (2017: 3,134). Overall, with the inclusion of our restaurant operations, our Group consumed a total of 16,385 cubic metres of water of which the restaurants contributed 14,181 cubic metres or 86.5%. We will continue to monitor this KPI closely.

(iii) Paper and Packaging Materials Consumption

Given its business nature, the Group does not use much paper and packaging materials. Paper is used only for club events and promotional materials, visitors paper napkins and take-away packs, and for printing and writing purposes in the offices. In the Reporting Period, we used an aggregate of 263,584 pieces of paper, a substantial reduction from a total of 530,886 pieces used in 2017. This is further evidence of the success of the Group's continuing measures to reduce paper usage at source including using papers from sustainable sources, encouraging recycling of paper, replacing paper records by electronic records, and reducing the use of paper by writing on whiteboards during presentations and meetings.

1.3 Environment and Natural Resources — Policies on Minimizing Significant Impacts

As discussed above and in our last ESG report, the Group's activities and operations do not utilise many natural resources nor generate many environmental hazards. With the commencement of restaurant operations we are even more acutely aware of this and have instigated strong operational procedures to ensure this. We have not polluted any air, water and land, and have complied with all the environmental laws and regulations of the regions which we have operations. But, as a responsible corporation, the Group is committed to conserving resources in order to reduce its impact on the environment as well as saving operation costs. We continue to actively promote energy efficiency, conservation and environmental awareness to our employees and stakeholders. As set out in our environmental policies, staff should pay attention to the use of air conditioning and electricity, and implement practices such as turning off lights, air conditioning and computers when not in use. We encourage regular maintenance and prolonged use of our computers, printers, fax machines, photocopiers, POS machines and other common office and retail equipment to reduce the frequency of replacement. We also cooperate with local government agencies and support environmental organizations' activities to build a "green" society.

2. SOCIAL MATTERS AND RELATED KPIs

The Group strives to create a harmonious and prosperous society and build mutually beneficial relationships with our stakeholders, including our employees, customers, suppliers, communities, as well as the public and governing authorities. On formulation of ESG strategies and policies, we incorporate our long term corporate development goals with considerations on the stakeholders and society. We believe that through sincere and mutually beneficial strategies and policies, our shareholders, employees, business partners, the local communities and ultimately the overall society would be benefitted.

2.1 Employment and Labour Practices

2.1.1 Employment — Policies and Compliance with Relevant Laws

The Group recognizes its success depends highly on the skills, passion and commitment of its employees. We consider that our employees and their intrinsic talent important resources and assets and we ensure employment and labour practices are implemented according to labour laws and the Employment Ordinance. We provide equal employment opportunities for all without discrimination in hiring, promotion, dismissal, remuneration, benefits, training and development.

Our recruitment and selection process is based on merit, in respect of essential and desirable criteria of the job nature and in line with the policy of equal opportunity. We strike to hire talented employees in the market by offering competitive wages and benefits, focused training and internal promotion opportunities. We specify the requirements of the vacancies in the job advertisement. We also engage employment agencies to source talented applicants. The selection process will be standard and positions will be decided after background checks, tests and interviews are carried out by our human resources manager as well as the related departmental head. Senior managers will be decided by the CEO.

(i) Employment Mix

At 31 December 2018, including the new restaurant operations, the Group's total head count increased to 237 employees (227 or 96% on full-time basis and 10 or 4% on part-time basis). Our head office accounted for 19 people or 8%, 164 or 69% were at Club Cubic and 54 or 23% were in our restaurant operations. A total of 42 or 18% were managerial grade and all the remaining 195 employees or 82% were operational grade. In terms of diversity, 144 or 61% were male and 93 or 39% were female. Overall, the ratio of female to male employees slightly increased from 36.9% to 39% which is consistent with current trends in the hospitality industry with a general increase in female employees.

Comparing with 31 December 2017, there was a reduction of 6 employees in our head office and an increase of 48 mainly in the operational level at Club Cubic. With our first full year of restaurant operations, we also added a total of 54 new employees to our operations.

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

As mentioned before, one of the major material ESG aspects raised by the Group's employees was salary and compensation packages. The Group addresses salary and compensation packages in a transparent manner by disclosing its salary benchmarking exercises to employees. All Hong Kong employees and Macau employees have been provided and covered with the MPF and Social Security Fund respectively.

We implement our staff structure on the philosophy of "making the best use of ability" and offer reasonable yet competitive compensation packages. All employees are required to enter into an employment contract with the Group with terms and conditions in compliance with the local labour laws and employment ordinances. The Group has developed clear rules and regulations to provide provisions on remuneration, dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity and other benefits as well as welfare for employees. The Group has created a fair and non-discriminatory atmosphere where male and female staff are equally entitled to employment and promotion opportunities, as well as the prevention of child labour and forced labour. Given such a policy of equal opportunity and treatment and anti-discrimination on the grounds of sex, origin, religion and race, our employees from different countries, cultures and religions worked together amicably and pleasantly without any record of complaints or disputes.

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

To build a harmonious employees' relationship, the Group's senior management regularly organised meetings with the employees to listen to their concerns and thereafter to take appropriate actions, and also arranged social and sport events in which the employees could participate for relaxation.

The Group did not have any employment related legal disputes on record in the year 2018.

2.1.2 Health and Safety — Policies and Compliance with Relevant Laws

The Group is committed to providing a safe, healthy and pleasant working environment to the employees. We have equipped the offices and our hospitality establishments with adequate equipment and facilities to ensure safety and convenience to employees. All permanent staff have been covered with social, medical and accidental insurance as required by laws. All employees are also requested to strictly observe the health and safety policies and to follow safety rules at work and to place safety as their priority during work at all times. The Group has implemented customer service and work safety guidelines for all of its employees which set its work safety policies and promote safety on premises. We have compiled the Occupational and Health Ordinance of Hong Kong and Macau.

Taking occupational health and safety as one of our prime responsibilities, we have established relevant safety policies and provided trainings to our staff and in particular to club operation staff. We have compiled and observed the Occupational and Health Ordinance of Hong Kong and Macau. In general, our safety trainings cover safety management policy, case analysis simulation in respect of on-site safety measures and emergency arrangement as well as allocation of responsibilities.

There were no fatalities, work injuries, occupational health and safety hazard cases recorded for year 2018, same as 2017.

2.1.3 Development and Training — Policies on Improving Employees' Knowledge and Skills

The Group is aware of the value and contribution of its employees, and is willing to invest and to offer training and development courses for them to enhance their capabilities. The Group frequently arranges senior staff to provide directional advice and guidance and short-term training to junior staff, and sponsors employees to attend external training programs relevant to their work to improve their skills and knowledge which will be beneficial to their career development. We implement a system that links our employees' remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity and eagerness of advancement through continuous learning.

The human resources department is responsible for employee training. The Group has introductory and continuous training programmes for our employees to ensure the consistency of our high-quality customer services across all of our establishments, and the relevant policies and guidelines in respect of their respective posts. Work safety training are also provided to our operational staff. We review our training programmes based on market trends and updates as well as changes in compliance and regulatory environment.

In 2018, 109 of our employees, most from the operational level, were sponsored to attend training courses (2017: 5 employees).

2.1.4 Labour Standards — Policies and Compliance with Relevant Laws

In 2018, there were no labour strikes within the Group and we did not experience any material labour disputes nor any material insurance claims related to employees' injuries. Equal opportunities have been given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees have not been discriminated against or deprived of opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws. We firmly believe that we have maintained a good working relationship with our employees. The Group also did not experience any material safety problems and no material safety accidents occurred due to the fault of the Group. Besides, we regularly monitor information and data related to employment to prevent non-compliance with rules on child labour and forced labour. We are not aware of any material non-compliance with the relevant standards, rules and regulations in relation to our employment and labour practices in 2018.

2.2 Operating Practices and Social Investment

2.2.1 Supply Chain Management — Policy on Managing Environmental and Social Risks

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

The Group has established a material and supplier management system, covering the process and procedure for procurement. Based on the requirements and plans of the respective departments and categories of purchases, the Group usually places orders through price competitiveness and shortlisting, and chooses suppliers through a screening and evaluation process. Our suppliers are selected carefully based on a set of selection criteria, which includes (i) ability to meet specification and standards; (ii) product and service quality; (iii) pricing of the products and services; (iv) quality control methods and practices, and reliable delivery method; and (v) past performance. When necessary, the Group will carry out field investigations to ensure the suppliers are well equipped to provide guaranteed quality and are able to manage safety and other environmental issues. We maintain a list of suppliers who have track records in dealing with us or in the market. Regular assessments on the suppliers including requests to provide basic certifications, licenses and product catalogues will be conducted to ensure that the suppliers are not only committed to the cost and quality of the products supplied, but also have not violated any laws and practices.

During the Reporting Period, we did not experience any significant problems regarding the quality of our fresh food or beverage products provided by our suppliers and there were no material limitations in the supply nor any shortage of any products. We believe that our supply chain management and procedures have been effective in ensuring the safety and quality of our supply chain.

During the Reporting Period, we had a total of 124 suppliers, an increase of 440% from the 23 suppliers we had in 2017. The increase was mainly due to the commencement of restaurants operations during this year. All suppliers were local, which reaffirmed our strategy of supporting the local economy and was also in line with our local and fresh food supply strategy for our restaurants.

2.2.2 Product Responsibility — Policy and Compliance with Relevant Laws

(i) Safety, Fire and Hygiene

One major condition imposed by applicable laws and regulations in respect of our operations includes compliance of relevant safety, hygiene and fire requirements. Our operation managers across all lines of business are responsible for the compliance of these requirements by conducting checks and inspections of the restaurants and club premises regularly. For example, fire escape corridors shall be kept clear from obstruction. Fire extinguishers and other equipment shall be kept at the correct location and that they are accessible and remain free from obstruction. We must also maintain close monitoring of club entrant capacity requirements.

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

(ii) Security

As the Group offers our services in open places with public access, security is a major issue to us. We have therefore engaged independent security companies to provide a security staff, working under the supervision of our operation managers to ensure safety. We have established safety and anti-crime manual and implemented strictly by the security team. For our club operations, we control headcounts and implement ID checking procedures at the entrance of our premises to ensure the number of guests inside the premises shall not exceed the relevant regulatory limits and that all customers are of legal age to consume alcohol and enter clubbing venues. We have established bag checking procedures at the entrance such that the entrance security officers shall check the bags of all guests to ensure that there are no illegal drug or other illegal or dangerous items brought into the club premises. Security staff inside the club premises maintain order inside the club, and attend any scene where fights or any illegal activities such as drug use, theft, harassment and promptly stop such activities in order to ensure the safety of our staff and customers. In addition, security staff also escort our staff to perform certain duties to ensure their safety particularly staff carrying cash received from our customers for bill settlement and our performers. Safety and security training are also provided to our staff regularly to ensure that they are well aware of our safety and security procedures. In order to spot potential illegal activities such as fights, drug abuse or theft at an early stage, over 100 CCTV cameras are installed inside the club premises. We have designated a team of staff to monitor the CCTV camera systems to ensure that we are able to identify fights or any illegal activities such as drug use, theft, harassments promptly and stop such activities. Our security team will investigate immediately if any suspicious circumstance arises or stop any potential fight inside the premises once identified. We also maintain a blacklist system which aids the entrance security officers to identify individuals with a record of unwelcoming behaviour, and that such blacklisted individuals are prohibited from entering into our club so as to ensure the safety of our staff and customers.

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

(iii) Privacy

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

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

During the Reporting Period, there were no cases initiated against us, nor any complaints received, regarding any breach of relevant privacy laws, regulations and policies in any jurisdiction in which we operate.

(iv) Customer Service and Complaints

The Group is committed to delivering high quality services and products to our customers. As such, we dedicate efforts to deal with complaints by our customers and establish procedures to handle complaints and implement corrective measures, with a view to preventing the reoccurrence of similar complaints. For complaints at the club or restaurant premises, if any staff receives a complaint from a customer, the staff shall report to their supervisor, who would review and understand the matter with the relevant customer and offer remedial proposals to the customer. The complaint will be recorded for internal review. If the complaint cannot be resolved on site or if a complaint has been received online through emails, the incident will be reported to a general manager, who will investigate the incident and file a report to the management with solutions to improve or avoid similar incidents in the future. An explanation will be sent to the relevant customer to ensure the matter has been resolved and to maintain good customer relationships. Our management will review complaints records regularly, and accordingly arrange necessary training to our staff to consistently improve the operation of the club.

During the Reporting Period, we were not aware of any incident of customer complaint claiming material compensation, or any investigation by any government authorities in relation to such complaint, that could have a material adverse impact on our business.

(v) *Insurance and Third Party Liability*

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

(vi) *Intellectual Property*

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

We respect and observe intellectual property rights and pay for the music under licenses and copyrights to allow us to broadcast and to perform in our club and the music events and the background music in our restaurants. We select music and maintain regular discussions and reviews with DJs to optimise customers' experience. The Macau Association of Composers, Authors & Publishers ("MACA") is a collective management organisation, or a musical society established under the Macau law and regulations regarding copyrights and granting licenses for performing musical recordings in public there. Arrangement has been made between the owner of our club venue and MACA that Club Cubic Macau is licensed to use and perform any of the musical works of which MACA possesses the relevant license or authority inside Club Cubic Macau for a specified term. We have maintained a list of musical works in use in Club Cubic Macau, which is distributed to our resident DJs, to ensure that all musical works in use are covered by the relevant license from MACA. We also check the list against the database of MACA every two months to ensure that the music we play are covered by its licenses and in the event that there is any update as to the licensing authority of MACA on the musical works on our list, we will revise the list where necessary and update our resident DJ. In 2018, there were no legal proceedings against the Group with respect to our use of musical works in Club Cubic Macau.

For the events we hold in Hong Kong as well as for background music in our restaurant establishments, we also obtain the relevant permit and licences for public performance of music recordings from Hong Kong Recording Industry Alliance Limited, Composers and Authors Society of Hong Kong Limited and Phonographic Performance (South East Asia) Limited.

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

2.2.3 Anti-corruption — Policies and Compliance with Relevant Laws

As discussed in the introduction section, the prevention of bribery, extortion, fraud, and money laundering is a material aspect to all the stakeholders. The Group adopts a ZERO tolerance approach to these crimes. Detailed policies and measures have been disclosed in and implemented since we started our ESG Reporting and KPIs in 2016. All directors, management and staff must comply with related national and local government laws and regulations on prevention of bribery, extortion, fraud and money laundering. With the implementation of clear policies and well-structured processes on purchases, sales, operation and finance, and the adoption of a high code of conduct especially in our senior management, all employees not only have responsibility to understand but also comply with the above regulations and any person who contravenes the regulations will be subject to disciplinary sanction. There were no complaints of corruption against the Group or its staff in the Reporting Period, same as 2017.

2.2.4 Community Investment

The Group strives to fulfil its responsibilities as a corporate citizen and makes contributions to society, taking into consideration the needs and interests of the communities where we expand our operations. By recruiting staff from local communities, we assist both local employment and at the same time we have a local team who is familiar with the local environment which is important in the hospitality industry, thereby creating a win-win situation. We also try to build a beneficial corporate-community relationship by addressing the local community concerns, such as those related to environmental issues and cultural promotion. We continue to focus on areas with higher local priority and the Group will continue to devote more resources towards community investment as the Group grows in its size and accelerates its development. During the typhoon disasters in Macau and Hong Kong in 2018, the Group assigned and supported our employees to perform volunteer services as they had done in 2017 during the devastating Macau typhoon and the subsequent flooding.

REPORT OF THE DIRECTORS

The Directors submit herewith their report, together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

Principal Risks and Uncertainties

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

Details of principal risks faced by the Group during the year ended 31 December 2018 are set out in"Principal risks and uncertainties"under "Management Discussion and Analysis" Section of this annual report. The details of financial risk management policies and practices of the Group are set out in Note 4(b) to the Consolidated Financial Statements.

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

Key Performance Indicators

The key performance indicators are detailed in the Financial Review set out in the "Management Discussion and Analysis" Section on pages 8 to 9 of this annual report, which constitutes a part of this report of the Directors.

Compliance with Laws and Regulations

To the best of the knowledge of the Board and the management, the Group complied with the relevant laws and regulations which constitutes material impact on the business and operation of the Company and its subsidiaries in all material respects during the year ended 31 December 2018.

Key Relationships with Employees, Customers and Suppliers

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

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

Environmental Policies

The Group is committed to building an environmentally-friendly corporate environment that pays close attention to conserving natural resources. The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials. For further details, please refer to the Environmental, Social and Governance Report set out on page 31 to 44 of this annual report.

SEGMENT INFORMATION

The analysis of geographical locations of the Company and its subsidiaries for the year are set out in note 5 to the consolidated financial statements. Details of the segment information of the Group for the year are set out in note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the state of the affairs of the Company and the Group as at that date are set out in the consolidated financial statements on pages 62 to 129 of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements, is set out on page 130 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 24 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the Consolidated Statements of Changes in Equity and note 25 to the consolidated financial statements, respectively.

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$57,322,000. This included the Company's share premium account in the amount of approximately HK$66,235,000 which is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

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

Non-executive Directors

Mr. Au Wai Pong Eric
Mr. Au Ka Wai *(appointed on 9 August 2018)*
Ms. Poon Kam Yee Odilia
Mr. Au Ion Weng *(resigned on 9 August 2016)*

Independent Non-executive Directors

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

The Company has entered into a service agreement with each of our executive Directors for an initial term of three years whereas all of the non-executive Directors have been appointed for an initial term of two years. All of the independent non-executive Directors have been appointed for an initial term of one year.

In accordance with Article 108 of the Company's articles of association, at each annual general meeting one third of the Directors for the time being, shall retire from office by rotation. Accordingly, Mr. Lam Wai Chin Raymond, Mr. Chan Ting Bond Michael and Mr. Tse Kar Ho Simon shall retire from office as Directors by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 112 of the Company's articles of association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment. As Mr. Au Ka Wai was appointed on 9 August 2018 to fill the vacancy of the retirement of Mr. Au Ion Weng. Mr. Au Ka Wai shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. None of the Directors proposed for re-elections at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments of the Group are set out in note 11 to the consolidated financial statements. Directors' remuneration is mainly determined by their jobs duties and relevant market standard.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in note 26 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION FOR THE BENEFIT OF DIRECTORS

The Company has arranged appropriate insurance cover in respect of its legal action against its Directors, effective from the date of Listing and remained in force as of the date of this report. According to Article 191 of the Company's articles of association, the Directors shall be indemnified and secured harmless out of assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain.

EMPLOYEES AND REMUNERATION POLICY

The Group had a total of 237 employees as at 31 December 2018 (2017:181 employees). Remuneration is determined with reference to market terms and the performance, qualifications and experience of the individual employee. We actively refine our staff structure by adopting the human resources philosophy of "making the best use of ability" and offer reasonable yet competitive compensation packages. The Group has developed a number of rules and regulations to provide provisions on remuneration, dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity and other benefits as well as welfare for employees. Other benefits include contributions to statutory mandatory provident fund schemes to its qualified Hong Kong employees and social security fund schemes operated and managed by the Macau Government to its qualified Macau employees.

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

As at 31 December 2018, the interests and short position of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director/Chief Executive	Name of Group member/associated corporation	Nature of interest	Number and class of securities[1]	Approximate percentage of shareholding interest immediately after the Listing
Mr. Choi Yiu Ying (Notes 2 and 3)	The Company	Interest of a controlled corporation, interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen Investment Co. Ltd ("Welmen")	Interest of a controlled corporation	3,031.11 ordinary shares of Welmen (L)	30.3111%
		Beneficial owner	706.67 ordinary shares of Welmen (L)	7.0667%
Mr. Choi Siu Kit (Notes 2 and 3)	The Company	Interest of a controlled corporation, interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Interest of a controlled corporation	3,031.11 ordinary shares of Welmen (L)	30.3111%
		Beneficial owner	706.67 ordinary shares of Welmen (L)	7.0667%
Mr. Yeung Chi Shing (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,233.44 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%

Name of Director/Chief Executive	Name of Group member/associated corporation	Nature of interest	Number and class of securities(1)	Approximate percentage of shareholding interest immediately after the Listing
Mr. Au Ka Wai (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	60.75%
	Welmen	Beneficial owner	1,604.44 ordinary shares of Welmen (L)	16.0444%

Notes:

(1) The letter "L" denotes the person's long position in the shares of the Company or the relevant associated corporation.

(2) On 2 March 2016, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing entered into an acting in concert confirmation whereby each of them confirmed that since 31 January 2011, they acted in concert with each other when dealing with matters concerning operation management, accounts, finance and treasury and human resources management of the Group, details of which are set out in the Prospectus. 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 31 December 2018, none of the Directors and the Company's chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 December 2018, the person (other than the Directors or the Company's chief executives) or company who or which had an interest and short position in the shares and underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number and class of securities[1]	Approximate percentage of shareholding interest immediately after the Listing
Welmen	Beneficial owner	1,093,500,000 ordinary shares (L)	60.75%
Yui Tak (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Ocean Concept (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Toprich (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Perfect Succeed (Note 4)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	60.75%
Mr. Au Ka Wai (Note 2)	Interest held jointly with another person	1,093,500,000 ordinary shares (L)	60.75%
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 31 December 2018, no other interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any associated company", at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Saved as the related party transactions disclosed in note 30 to the consolidated financial statements, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its controlling shareholders or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

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. 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, Mr. Choi Yiu Ying and Mr. Choi Siu Kit, our executive Directors and also controlling shareholders of the Company, are engaged in certain restaurant and bar business in Hong Kong before the Listing (the "Retained HK Restaurant and Bar Business"). Set out below are the details of their interests in the Retained HK Restaurant and Bar Business during the twelve-month period ended 31 December 2018:

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 Siu Kit
Mighty Force Catering Group Limited (Note 2)	Approximately 50% of issued share capital was held by Mr. Choi Siu Kit's spouse, who was also a director
Sham Tseng Chan Kee Roasted Goose Company Limited (Note 2)	Approximately 7.5% of issued share capital was held by Mr. Choi Siu Kit's spouse, who was also a director
Eastern Full Limited (Note 2)	Approximately 7.5% of issued share capital was held by Mr. Choi Siu Kit's spouse, who was also a director

Notes

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

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

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

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 year end 31 December 2018:

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 twelve-month period ended 31 December 2018, none of the Directors or the controlling shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or had any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group. The Controlling Shareholders have provided information necessary for annual review by our Company's independent non-executive Directors and the enforcement of the Deed of Non-competition. The Controlling Shareholders have provided written confirmation to the Company declaring compliance with the Deed of Non-competition. Our independent non-executive directors have reviewed and concluded their compliance with the Deed of Non-competition signed between controlling shareholders and the Company.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Innovax Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 9 February 2017, neither the Compliance Adviser 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.

SHARE OPTION SCHEME

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

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

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

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

SHARE OPTIONS

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

Pursuant to Rules 23.07 of the GEM Listing Rules, particulars and movements of shares options under the Share Option Scheme during the year ended 31 December 2018 are set out as follows:

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

Notes:

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

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

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

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

EQUITY-LINKED AGREEMENTS

Save for the arrangement of corporate reorganisation in preparation for the Listing, details of which are disclosed in the Prospectus, and the share option scheme of the Group, no other equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the applicable laws of the Cayman Islands, that would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company maintained a sufficient public float as required under the GEM Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on page 20 to 30 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the revenue from sales of goods or rendering of services to the five largest customers of the Group represented less than 10% of the total revenue of the Group. The purchases from the five largest suppliers of the Group accounted for 57.4% of the total purchase of the Group and the purchase from the largest supplier accounted for 42.4% of the total purchase of the Group. To the best knowledge of the Board, none of the Directors, their close associates or any shareholder holding more than 5% of the issued share capital of the Company, had any beneficial interests in the Group's five largest customers or suppliers.

CONNECTED TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2018 are disclosed in note 30 to the consolidated financial statements. These related party transactions are also connected transactions which are exempted from the reporting, annual review, announcement, circular and shareholders approval under Chapter 20 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this report, there was no event relevant to the business or financial performance of the Group that came to the attention of the Directors after the year ended 31 December 2018.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by HLB Hodgson Impey Cheng Limited ("HLB"). A resolution will be proposed at the forthcoming annual general meeting to reappoint HLB as the auditors of the Group.

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

On behalf of the Board

Choi Yiu Ying
Chairman and Chief Executive Officer

Hong Kong, 22 March 2019

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Luk Hing Entertainment Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 129, which comprise the consolidated statements of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of sales of beverage and other products Refer to Note 6 to the consolidated financial statements and the accounting policies in Note 2 to the consolidated financial statements.	
We identified revenue recognised from sales of food, beverage and other products as a key audit matter as revenue recognised is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income and material revenue transactions may occur close to the end of the reporting period which require management's effort in verifying appropriate cut-off for goods despatched.	We selected samples of sales of food, beverage and other products transactions. Our procedures in relation to these transactions included: • Obtaining an understanding of the revenue recognition process regarding sales of food, beverage and other products; • Performing test of details, on a sample basis, by comparing the details and amounts of the transactions selected with the details and amounts shown on the underlying documentation, including the journal vouchers and sales invoices; • Testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy. We found that the amount and timing of the revenue recorded were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practising Certificate Number: P06901

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	6	**206,868**	137,384
Other income and gain	7	**4,370**	3,484
Cost of inventories sold		**(44,596)**	(26,591)
Staff costs		**(55,839)**	(39,881)
Property rentals and related expenses		**(26,285)**	(17,478)
Advertising and marketing expenses		**(27,440)**	(24,466)
Other operating expenses		**(46,670)**	(42,899)
Depreciation and amortisation		**(6,670)**	(2,848)
Finance costs		**(25)**	–
Profit/(loss) before taxation	10	**3,713**	(13,295)
Taxation	9	**(532)**	(217)
Profit/(loss) for the year		**3,181**	(13,512)
Other comprehensive (loss)/income:			
Exchange difference on translating of financial statements of overseas subsidiaries		**(234)**	82
Total comprehensive income/(loss) for the year		**2,947**	(13,430)
Profit/(loss) for the year attributable to:			
Owners of the Company		**2,201**	(9,275)
Non-controlling interests		**980**	(4,237)
		3,181	(13,512)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**1,967**	(9,193)
Non-controlling interests		**980**	(4,237)
		2,947	(13,430)
Earnings/(losses) per share (in HK cents)			
— Basic	13	**0.12**	(0.52)
— Diluted	13	**0.12**	(0.52)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Assets			
Non-current assets			
Plant and equipments	14	**20,200**	21,119
Intangible assets	15	**836**	820
Financial assets at fair value through other comprehensive income ("Financial assets at FVTOCI")	16	**5,932**	–
Available-for-sale investments	2.1	**–**	6,160
Deposits	18	**4,389**	3,885
		31,357	31,984
Current assets			
Inventories	17	**5,006**	3,923
Account and other receivables	18	**32,363**	25,723
Loan receivables	19	**8,612**	2,000
Cash and cash equivalents	20	**41,032**	49,167
		87,013	80,813
Liabilities			
Current liabilities			
Account and other payables	21	**30,042**	28,300
Bank overdrafts	20	**574**	–
Income tax payables		**391**	226
		31,007	28,526
Net current assets		**56,006**	52,287
Total assets less current liabilities		**87,363**	84,271
Non-current liabilities			
Deferred rentals	21	**1,600**	1,833
Amounts due to non-controlling interests	22	**4,112**	4,112
Provision for reinstatement costs	23	**715**	715
		6,427	6,660
Net assets		**80,936**	77,611

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Equity			
Share capital	24	**18,000**	18,000
Reserves		**62,191**	59,846
Equity attributable to owners of the Company		**80,191**	77,846
Non-controlling interests		**745**	(235)
Total equity		**80,936**	77,611

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

The consolidated financial statements on pages 62 to 129 were approved and authorised for issue by the Board of Directors on 22 March 2019 and signed on its behalf by:

Choi Yiu Ying
Director

Choi Siu Kit
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Share-based compensation losses HK$'000	Legal reserve HK$'000 (Note a)	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
As at 1 January 2017	18,000	66,235	–	12	–	2,792	87,039	–	87,039
Loss for the year	–	–	–	–	–	(9,275)	(9,275)	(4,237)	(13,512)
Other comprehensive income for the year	–	–	–	–	82	–	82	–	82
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	4,002	4,002
As at 31 December 2017 and 1 January 2018	18,000	66,235	–	12	82	(6,483)	77,846	(235)	77,611
Profit for the year	–	–	–	–	–	2,201	2,201	980	3,181
Other comprehensive loss for the year	–	–	–	–	(234)	–	(234)	–	(234)
Equity-settled share option arrangement	–	–	378	–	–	–	378	–	378
As at 31 December 2018	**18,000**	**66,235**	**378**	**12**	**(152)**	**(4,282)**	**80,191**	**745**	**80,936**

Note:

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Operating activities		
Profit/(loss) before taxation	**3,713**	(13,295)
Adjustments for:		
Impairment of account and other receivables	**858**	372
Impairment of loan receivables	**264**	–
Depreciation of property, plant and equipment	**6,556**	2,734
Amortisation of intangible assets	**114**	114
Equity-settled share option expense	**378**	–
Bank interest income	**(16)**	(28)
Operating cash flows before movements in working capital	**11,867**	(10,103)
(Increase)/decrease in inventories	**(1,083)**	754
Increase in account and other receivables	**(8,002)**	(4,812)
Increase in loan receivables	**(6,876)**	(2,000)
Increase in account and other payables	**1,262**	5,328
Cash used in operations	**(2,832)**	(10,833)
Income tax paid	**(366)**	–
Net cash used in operating activities	**(3,198)**	(10,833)
Investing activities		
Purchase of plant and equipment	**(5,391)**	(15,914)
Acquisition of available-for-sale investments	**–**	(6,160)
Purchase of intangible assets	**(130)**	–
Bank interest received	**16**	28
Net cash used in investing activities	**(5,505)**	(22,046)
Financing activities		
Capital contribution from non-controlling interests	**–**	4,002
Loans from non-controlling shareholders (Note 22)	**–**	4,112
Increase in bank overdrafts	**574**	–
Net cash generated from financing activity	**574**	8,114
Net decrease in cash and cash equivalents	**(8,129)**	(24,765)
Cash and cash equivalents at the beginning of the year	**49,167**	73,850
Effect of foreign exchange rate	**(6)**	82
	41,032	49,167
Represented by:		
Cash and cash equivalents at the end of the year	**41,032**	49,167

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

1. GENERAL INFORMATION

Luk Hing Entertainment Group Holdings Limited ("the Company") was incorporated in Cayman Islands on 30 November 2015 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 11 November 2017, the Company's shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1180, Cayman Islands and the principal place of business in Hong Kong is located at Room 1505, 15/F., Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong. The Company is an investment holding company.

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

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

The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the investors as the shares of the Company are listed on the GEM of the Stock Exchange. All values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Application of new and revised HKFRSs

Application of new and revised HKFRSs — effective on 1st January 2018

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1st January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 *Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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

The above new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

2.1 Application of new and revised HKFRSs *(Continued)*

Application of new and revised HKFRSs — effective on 1st January 2018 *(Continued)*

(a) *Impact on the consolidated financial statements*

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below:

Consolidated statement of financial position (extract)	31 December 2017 HK$'000	HKFRS 9 HK$'000	1 January 2018 HK$'000
Non-current assets			
Financial assets at FVTOCI	–	6,160	6,160
Available for sales investments	6,160	(6,160)	–

(b) *HKFRS 9 Financial instruments*

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1st January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1st January 2018. The difference between carrying amounts at 31st December 2017 and the carrying amounts at 1st January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

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

2.1 Application of new and revised HKFRSs *(Continued)*

Application of new and revised HKFRSs — effective on 1st January 2018 *(Continued)*

(b) HKFRS 9 Financial instruments (Continued)

The following table give a summary of the opening balances adjustment recognised for each line item in the consolidated statement of financial position that has been affected by HKFRS 9.

	Available-for-sale ("AFS") investments HK$'000	Financial assets at fair value through other comprehensive income HK$'000
Closing balance at 31 December 2017— HKAS 39	6,160	–
Effect arising from initial application of HKFRS 9:		
Reclassification from available-for-sale investments (Note)	(6,160)	6,160
Opening balance at 1 January 2018	–	6,160

Note:

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$6,160,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39 were reclassified from available-for-sale investments.

There was no material impact on the amounts recognized in relation to these assets from the application of HKFRS 9 on the Group's consolidated statement of financial position and reserve as at 1 January 2018.

Except above, all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are subsequently measured at amortised cost.

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

2.1 Application of new and revised HKFRSs *(Continued)*

Application of new and revised HKFRSs — effective on 1st January 2018 *(Continued)*

(b) HKFRS 9 Financial instruments (Continued)

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. The ECL on these assets are assessed collectively using a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates.

ECL for other financial assets at amortised cost, including bank balances, loan receivables, other receivables and rental deposits paid, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1 January 2018 and further assessment process is set out in notes to consolidated financial statement.

(c) HKFRS 15 Revenue from Contracts with Customers and the related amendments

As a result of the changes in the Group's accounting policies, as explained below, HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under HKFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

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

2.1 Application of new and revised HKFRSs *(Continued)*

New and revised HKFRSs that have been issued but are not yet effective

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC)–Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1st January 2019.
2 Effective for business combination or assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.
3 Effective for annual periods beginning on or after 1st January 2020.
4 Effective for annual periods beginning on or after 1st January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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

2.1 Application of new and revised HKFRSs *(Continued)*

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$35,490,000 as disclosed in note 28 to the financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

2.2 Statement of compliance/significant accounting policies

The consolidated financial statements has been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. In addition, the consolidated financial statements includes applicable disclosure required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Basis of preparation

The consolidated financial statements has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Company the current ability to direct the relevant activities of the investee).

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Subsidiaries *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Company's voting rights and potential voting rights.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred to the Group, liabilities assumed by the Group to the sellers of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Business combinations and goodwill *(Continued)*

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRSs. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Merger accounting for business combination involving entities under common control *(Continued)*

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2.1)

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2.1) *(Continued)*

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

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

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

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

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

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

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts.

(i) *Sales of food, beverage and other products*

Revenue from the sale of food, beverage and other products is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Revenue recognition *(Continued)*

(ii) Revenue from club and restaurant operations

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

(iii) Sponsorship income

Sponsorship income is recognised when:

- the promotion events have been held; or
- the services have been rendered, and it is probable that the sponsorship income will be granted and the amount can be measured reliably.

(iv) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(v) Royalty and franchising income

Royalty and franchising income is recognized on an accrual basis in accordance with the related agreements.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributable to non-controlling interests as appropriate).

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

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

The Group's contributions to the defined contribution retirement benefit plans are charged to profit or loss in the year incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The Group has no further payment obligations once the contributions have been paid.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the end of each reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Taxation *(Continued)*

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Plant and equipment

Plant and equipment are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated useful lives for plant and equipment are as follows:

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Licenses have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licenses over its estimated useful lives. Licenses are amortised over its estimated useful lives. Both the period and method of amortisation are reviewed annually.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Impairment on tangible assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (upon application of HKFRS 9)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Financial assets

Classification and subsequent measurement of financial assets
Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

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

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

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

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (upon application of HKFRS 9) *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

Amortised cost and interest income

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

Equity instruments designated as at FVTOCI

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

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (upon application of HKFRS 9) *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 2.1)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including account receivables, sponsorship receivables other receivables and loan receivables. The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

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

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

Significant increase in credit risk

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

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

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

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (upon application of HKFRS 9) *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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

Definition of default

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

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

Credit-impaired financial assets

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

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

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

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

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

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

Write-off policy

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (upon application of HKFRS 9) *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL

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

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

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

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

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

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

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (upon application of HKFRS 9) *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

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

Financial instrument (before the application of HKFRS 9 on 1 January 2018)

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets represent loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is (i) held for trading, or (ii) it is designated as FVTPL. A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (before the application of HKFRS 9 on 1 January 2018) *(Continued)*

Financial assets at FVTPL (Continued)

(iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excluded any dividend or interest earned on the financial assets.

Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and changes in foreign exchange rates are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial assets and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including account and other receivables, amounts due from related parties and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (before the application of HKFRS 9 on 1 January 2018) *(Continued)*

Impairment of financial assets (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as account receivables which are assessed individually for impairment. Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period within 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of account receivables, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liability and equity

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Financial instruments (before the application of HKFRS 9 on 1 January 2018) *(Continued)*

Financial liabilities

Financial liabilities (including account and other payables and amounts due to related parties) are subsequently measured at amortised costs, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and subsequently all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when and only when the obligation specified in the relevant contract is discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Group if:

(i) A person or a close member of that person's family is related to the Group if that person:

- (a) has control or joint control over the Group;
- (b) has significant influence over the Group; or
- (c) is a member of the key management personnel of the Group or the Group's parent.

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

2.2 Statement of compliance/significant accounting policies *(Continued)*

Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions apply:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);

(b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);

(c) both entities are joint ventures of the same third party;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(f) the entity is controlled or jointly controlled by a person identified in (i);

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealings with the entity and include:

- that person's children and spouse or domestic partner;
- children of that person's spouse or domestic partner; and
- dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between the Group and a related party, regardless of whether a price is charged.

Provision for reinstatement cost

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

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2.2, the directors of the Group are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Useful lives and residual values of property, plant and equipment

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

(b) Impairment of leasehold improvement

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

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

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

(c) Impairment loss for non-financial assets

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

(d) Provision for reinstatement costs

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

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

Provision of ECL for account and other receivables and loan receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's account and other receivables and loan receivables are disclosed in notes 4 and 18.

(f) Net realisable value of inventories

The directors of the Group reviews inventories on a product-by-product basis at the end of each reporting period, and makes allowance for obsolete inventory items identified that are no longer suitable for sales. The directors of the Group estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. As at 31 December 2018 and 2017, the carrying values of inventories were approximately HK$5,006,000 and HK$3,923,000 respectively.

4. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Financial assets		
Loans and receivables:		
— Account receivables	**8,990**	9,461
— Sponsorship receivables	**1,357**	3,100
— Other receivables	**953**	283
— Loan receivables	**8,612**	2,000
— Cash and cash equivalents	**41,032**	49,167
Financial assets at fair value through other comprehensive income	**5,932**	–
Available-for-sale investments	**–**	6,160
Financial liabilities		
At amortised cost		
— Account and other payables	**29,678**	28,165
— Deferred rentals	**1,964**	1,968
— Amounts due to non-controlling interests	**4,112**	4,112
— Bank overdrafts	**574**	–
— Provision for reinstatement costs	**715**	715

(b) Financial risk management objectives and policies

The directors of the Group monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

The Group's major financial instruments include financial assets at fair value through other comprehensive incomes, available-for-sales investments, account and other receivables, loan receivables, cash and cash equivalents, account and other payables, deferred rentals, amounts due to non-controlling interest and provision for reinstatement costs. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, account receivables, deposit, loan receivables, other receivables, sponsorship receivables and amounts due from related parties. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

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

General approach

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

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

As at 31 December 2018, account receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of food, beverage and other products sold and are transacted in cash or credit. The Group's account receivables arise from sales of food, beverage and other products to the customers. As at the end of the reporting period, the top three debtors and the largest debtor accounted for approximately 36.6% and 18.3% (2017: 33.1% and 16.6%), of the Group's account receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired account receivable disclosed in the below. Management makes periodic assessment on the recoverability of the account and other receivables and loan receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

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

4. FINANCIAL INSTRUMENTS *(Continued)*

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

General approach *(Continued)*

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

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

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

	12-month ECLs Stage 1 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Account receivables and other receivables			
-AAA to AA-	40	–	40
-A+ to BBB–	48		48
-BB to B-	24	–	24
-CCC to C–	–	746	746
	112	746	858

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

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

Currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiary. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should be the need arise.

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows.

4. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principle cash flows.

	Weighted average interest rate	On demand or within one year	More than one year but less than two years	More than two years but less than five years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018						
Non-derivative financial liabilities						
Account and other payables	**–**	**29,678**	**–**	**–**	**29,678**	**29,678**
Deferred rentals	**–**	**364**	**534**	**1,066**	**1,964**	**1,964**
Bank overdraft	**5.3–5.4**	**574**	**–**	**–**	**574**	**574**
Amounts due to non-controlling interests	**–**	**–**	**–**	**4,112**	**4,112**	**4,112**
Provision for reinstatement costs	**–**	**–**	**–**	**715**	**715**	**715**
As at 31 December 2017						
Non-derivative financial liabilities						
Account and other payables	–	28,165	–	–	28,165	28,165
Deferred rentals	–	135	304	1,529	1,968	1,968
Amounts due to non-controlling interests	–	–	–	4,112	4,112	4,112
Provision for reinstatement costs	–	–	–	715	715	715

4. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments

Fair value measurements of financial instruments

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

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

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

The Group's financial assets at FVTOCI (2017: available-for-sale investments) is measured at fair value at the end of each reporting period. The fair value of the investments as at 31 December 2018 amounts to approximately HK$5,932,000 (2017: HK$6,160,000).

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

Financial Assets	Fair value 2018 HK$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial assets at FVOCI — unlisted equity investment	**4,444**	Level 3	Net asset value (note (i))	N/A
Financial assets at FVOCI — unlisted equity investment	**777**	Level 3	Market approach	N/A
Financial assets at FVOCI — unlisted shares investment	**711**	Level 3	Net asset value (note (i))	N/A
	5,932			

Note:

(i) The Group has determined that the net asset value represents fair value at the end of the reporting period.

4. FINANCIAL INSTRUMENTS *(Continued)*

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

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

	Financial assets at FVTOCI HK$'000
Closing balance at 31 December 2017	–
Reclassification	
From available-for-sale investments	6,160
Opening balance at 1 January 2018	6,160
Exchange realignment	(228)
Closing balance at 31 December 2018	5,932

(d) Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group overall strategy remains unchanged during the year.

4. FINANCIAL INSTRUMENTS *(Continued)*

(d) Capital risk management *(Continued)*

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Total liabilities	**37,434**	35,186
Total assets	**118,370**	112,797
Gearing ratio	**31.6%**	31.2%

5. OPERATING SEGMENT

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

Information about geographical areas

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Macau	**123,163**	110,801
Hong Kong	**83,705**	26,583
	206,868	137,384

5. OPERATING SEGMENT *(Continued)*

Information about geographical areas *(Continued)*

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

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Macau	**4,897**	5,746
Hong Kong	**20,528**	20,078
The PRC	**5,155**	5,383
The US	**777**	777
	31,357	31,984

Information about major customers

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue (2017: HK$nil).

6. REVENUE

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

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue from contracts with customers:		
Recognised at a point in time		
Sales of food, beverage and other products	**182,008**	108,852
Sponsorship income	**9,140**	6,734
Entrance fees income	**14,483**	20,326
Others (Note)	**986**	1,431
	206,617	137,343
Revenue from other sources:		
Loan interest income	**251**	41
	206,868	137,384

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

7. OTHER INCOME AND GAIN

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Net foreign exchange gain	**1,094**	1,162
Consultancy fee income	**958**	–
Others (Note)	**2,318**	2,322
	4,370	3,484

Note: Others mainly included the tips income.

8. PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries as at 31 December 2018 and 2017:

Name of subsidiaries	Place of incorporation	Place of operations	Issued and paid up capital/ Contributed capital	Proportion of effective equity interests held by the Company				Principal Activities
				Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017	
Luk Hing Investment Limited	Macau	Macau	MOP25,000	–	–	**100%**	100%	Operation of clubbing business
Luk Hing Investment (Hong Kong) Limited	Hong Kong	Hong Kong	HK$1	–	–	**100%**	100%	Organising music-related events
Luk Hing Group Development (China) Limited	Hong Kong	The People's Republic of China (the "PRC")	HK$100	–	–	**100%**	100%	Operating of clubbing business
Luk Hing Capital Limited	Hong Kong	Hong Kong	HK$100	–	–	**100%**	100%	Money lending business
Betula Profit Holdings Limited	Hong Kong	Hong Kong	HK$20,000,000	–	–	**59%**	59%	Catering business
Unicorn Century Limited	Hong Kong	Hong Kong	HK$100	**100%**	100%	–	–	Catering business

8. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiaries	Place of incorporation	Place of operations	Issued and paid up capital/ Contributed capital	Proportion of effective equity interests held by the Company				Principal Activities
				Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017	
珠海陸慶文化發展有限公司*	PRC	PRC	HK$4,700,000	–	–	100%	100%	Investment holding
珠海橫琴陸慶樺霖文化產業有限公司*	PRC	PRC	RMB$0	–	–	100%	–	Investment holding
Hou Tin Zaak Limited	Hong Kong	Hong Kong	HK$1,000,000	–	–	100%	–	Catering business
Luk Hing International Limited	The British Virgin Island ("BVI")	Macau	USD1	100%	100%	–	–	Investment holding
L&B Betula Limited	BVI	Hong Kong	USD1,000	–	–	74%	74%	Investment holding

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

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

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

Principal activities	Principal place of business	Number of subsidiaries 2018	Number of subsidiaries 2017
Investment holding	BVI	7	7
Inactive	Hong Kong	1	1

9. TAXATION

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Income tax expense		
— Macau Complementary Tax	**416**	217
— PRC Enterprise Income Tax	**116**	–
	532	217

Macau Complementary Tax is calculated at 12% of the assessable profit for the years ended 31 December 2018 and 2017.

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

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit subject to Hong Kong Profits Tax during the years ended 31 December 2018 and 2017.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI during the years ended 31 December 2018 and 2017.

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

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

At the end of the reporting period, the Group also had deductible temporary differences of approximately HK$47,000 (2017: HK$560,000). No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has estimated unused tax losses of appropriately HK$8,205,000 (2017: HK$15,496,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams.

9. TAXATION *(Continued)*

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 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.

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, 2016 and 2017 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$3.9 million in aggregate for the years of assessment ended 31 December 2013 and 2014 to 2017.

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

The income tax expense can be reconciled to the profit/(loss) before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Profit/(loss) before taxation	**3,713**	(13,295)
Tax at the applicable income tax rate	**497**	(2,325)
Tax effect of temporary difference not recognised	**47**	(560)
Tax effect of expenses not deductible for tax purpose	**110**	118
Tax losses not recognised	**1,358**	3,135
Tax effect of non-taxable income	**(230)**	(5)
Exemption for tax liabilities in Macau Complementary Tax (Note)	**70**	(70)
Utilisation of previously unrecognised tax losses	**(1,425)**	(76)
Over provision in previous years	**105**	–
Taxation for the year	**532**	217

Note: Under the Macau Complementary Tax, for the years of assessment 2018 and 2017, the taxable profits up to MOP600,000 was exempted.

10. PROFIT/(LOSS) BEFORE TAXATION

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Profit/(loss) before taxation has been arrived at after charging:		
Staff costs:		
Director's emoluments (included retirement scheme contributions) (Note 11)	**2,702**	2,702
Salaries and other benefits	**51,879**	36,602
Retirement benefits scheme contributions	**1,258**	577
	55,839	39,881
Auditors' remuneration		
— HLB Hodgson Impey Cheng Limited		
Audit services	**700**	700
— Other auditor	**102**	102
	802	802
Cost of inventories sold	**44,596**	26,591
Impairment of account and other receivables (Note 18)	**858**	373
Impairment of loan receivables (Note 19)	**264**	–
Lease payments under operating leases		
— Minimum lease payments	**20,104**	13,422
— Profit sharing for lease payment (Note (i))	**6,181**	4,056
	26,285	17,478
Equity-settled share option expense	**378**	–
Depreciation of plant and equipment (Note 14)	**6,556**	2,734
Amortisation of intangible assets (Note 15)	**114**	114
	6,670	2,848

Note:

(i) Profit sharing for lease payment was the contingent rental depending on the net profit of the club operation, net of royalty and provision for fixed assets maintenance, pursuant to the term and conditions as set out in the respective agreement.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The aggregate amounts of emoluments paid by the companies now comprising the Group to the directors of the Company during the reporting period are as follows:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Directors' fees	560	560
Salaries and other benefits	2,090	2,090
Retirement schemes contributions	52	52
	2,702	2,702

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and chief executive of the Group during the years ended 31 December 2018 and 2017 are as follows:

For the year ended 31 December 2018

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

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

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

For the year ended 31 December 2017

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

Notes:

i. Mr. Choi Yiu Ying is also the Chief Executive of the Group and his emoluments disclosed above include those for the services rendered by him as the Chief Executive.

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

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

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

(b) Employees' emoluments

The five highest paid individuals during the year included 2 directors (2017: 2 directors) whose emoluments are disclosed in above. The aggregate of the emoluments in respect of the other 3 individuals (2017: 3 individuals) with the highest emoluments are as follows:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Salaries, allowances and benefit in kind	**2,725**	2,406
Retirement scheme contributions	**36**	38
	2,761	2,444

The emoluments of the other 3 individuals (2017: 3 individuals) with the highest emoluments are within the following bands:

	Year ended 31 December 2018	Year ended 31 December 2017
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1

Senior management of the Group

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

	Year ended 31 December 2018	Year ended 31 December 2017
Nil to HK$1,000,000	**1**	–

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the directors of the Group or the chief executive of the Group or the five highest paid employees or senior managements as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees and senior management waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

12. DIVIDENDS

No dividend has been paid or proposed by the Company since its date of incorporation. The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

13. EARNINGS/(LOSSES) PER SHARE

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Earnings/(losses) for the purpose of basic and diluted earnings per share	**2,201**	(9,275)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,800,000**	1,800,000
Effect of dilutive potential ordinary shares: — Share option *(Note)*	**268**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,800,268**	1,800,000

Note: The diluted earnings/(losses) per share for the years ended 31 December 2018 and 2017 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2018, the outstanding share options were assumed to have been converted into ordinary shares. For the year ended 31 December 2017, diluted losses per share is the same as basic losses per share as there were no potential dilutive ordinary shares in issue.

14. PLANT AND EQUIPMENTS

	Motor vehicles HK$'000	Security surveillance-camera system HK$'000	Furniture, fixtures and equipment HK$'000	Tableware HK$'000	Leasehold improvement HK$'000	Total HK$'000
Cost						
As at 1 January 2017	987	526	11,898	762	408	14,581
Additions	–	74	5,372	666	12,256	18,368
As at 31 December 2017 and 1 January 2018	987	600	17,270	1,428	12,664	32,949
Additions	–	22	3,104	173	2,338	5,637
As at 31 December 2018	**987**	**622**	**20,374**	**1,601**	**15,002**	**38,586**
Accumulated depreciation						
As at 1 January 2017	272	427	7,247	762	388	9,096
Charge for the year	197	42	1,971	24	500	2,734
As at 31 December 2017 and 1 January 2018	469	469	9,218	786	888	11,830
Charge for the year	183	38	3,002	171	3,162	6,556
As at 31 December 2018	**652**	**507**	**12,220**	**957**	**4,050**	**18,386**
Net book values						
As at 31 December 2018	**335**	**115**	**8,154**	**644**	**10,952**	**20,200**
As at 31 December 2017	518	131	8,052	642	11,776	21,119

15. INTANGIBLE ASSETS

	HK$'000
Cost	
As at 1 January 2017	972
Additions	–
As at 31 December 2017 and 1 January 2018	972
Additions	130
As at 31 December 2018	**1,102**
Accumulated amortisation	
As at 1 January 2017	38
Charge for the year	114
As at 31 December 2017 and 1 January 2018	152
Charge for the year	114
As at 31 December 2018	**266**
Net book values	
As at 31 December 2018	**836**
As at 31 December 2017	820

The intangible assets include the dance hall license and karaoke license of the club premises and vehicle registration marks. The directors of the Company estimated the useful lives of the vehicle registration marks is 5 years. The dance hall license permits the club to operate as a dance hall. The karaoke license permits the club to operate karaoke activity. The dance hall license and karaoke license are typically granted for a period of one year. The directors of the Company are not aware of any expected impediment with respect to the renewal of the licenses and consider that the possibility of failing in license renewal is remote. Therefore, the directors of the Company estimated the useful lives in 8.5 years of the dance hall license and karaoke license are same expiry date of the operating agreement of the club premises.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December 2018 HK$'000
Unlisted equity investment	**5,221**
Unlisted share investment	**711**
	5,932

Included in the balances as at 31 December 2018 is a cash capital contribution of RMB3,894,000 and a loan contribution of RMB606,000 to invest around 19% of a company in the PRC, which is principally engaged in the operation and management of clubbing venue in Zhuhai and is known as Club Cubic Zhuhai. The remaining balance represents an investment in convertible preferred stock of an oversea entity.

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

With the adoption of HKFRS 9 "Financial Instruments" on 1 January 2018, the above investments were reclassified from available-for-sale investments to financial asset at fair value through other comprehensive income.

17. INVENTORIES

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Food and beverages	**4,932**	3,845
Other operating items for club and restaurant operations	**74**	78
	5,006	3,923

18. ACCOUNT AND OTHER RECEIVABLES

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Account receivables	**9,784**	9,834
Less: allowance for credit losses/doubtful debts	**(794)**	(373)
	8,990	9,461
Sponsorship receivables	**1,400**	3,100
Less: allowance for credit losses/doubtful debts	**(43)**	–
	1,357	3,100
Other receivables	**974**	283
Less: allowance for credit losses/doubtful debts	**(21)**	–
	953	283
Prepayments	**7,143**	4,965
Deposits	**18,309**	11,799
	36,752	29,608
Portion classified as non-current		
— Deposits	**(4,389)**	(3,885)
Current portion	**32,363**	25,723

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

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

18. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
0 to 30 days	**5,694**	5,935
31 to 60 days	**1,018**	388
61 to 90 days	**1,092**	390
91 to 120 days	**398**	973
Over 120 days	**788**	1,775
	8,990	9,461

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

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 31 December 2017, account receivables of approximately HK$3,138,000 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 31 December 2017 HK$'000
Overdue by:	
0 to 30 days	390
Over 30 days	2,748
	3,138

18. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

Movement in the accumulated allowance for credit losses/doubtful debts of account receivables

	2018 HK$'000	2017 HK$'000
As at 1 January	**373**	–
Amounts written off as uncollectible	**(373)**	–
Allowance for credit losses/doubtful debts recognised during the year	**794**	373
As at 31 December	**794**	373

Movement in the accumulated allowance for credit losses/doubtful debts of sponsorship receivables

	2018 HK$'000	2017 HK$'000
As at 1 January	**–**	–
Allowance for credit losses/doubtful debts recognised during the year	**43**	–
As at 31 December	**43**	–

Movement in the accumulated allowance for credit losses/doubtful debts of other receivables

	2018 HK$'000	2017 HK$'000
As at 1 January	**–**	–
Allowance for credit losses/doubtful debts recognised during the year	**21**	–
As at 31 December	**21**	–

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

Included in the above provision for impairment of account and other receivables is a provision for individually impaired account and other receivables of approximately HK$858,000 (2017: HK$373,000) (Note 10). The individually impaired receivables related to customers that were in financial difficulties and management assessed that the receivables are unlikely to be recovered.

18. ACCOUNT AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2018 and 2017, the Group's prepayments mainly represents prepayments for performance fee of featured events of approximately HK$2,633,000 and HK$2,476,000, respectively and prepayments for legal and professional fees of approximately HK$2,125,000 and HK$1,200,000, respectively. As at 31 December 2018 and 2017, the Group's deposits mainly represents deposits for acquisition of plant and equipment and decoration of approximately HK$12,372,000 and HK$6,997,000, respectively, rental deposits of approximately HK$4,869,000 and HK$4,119,000, respectively, and deposits for holding featured events of approximately HK$228,000 and HK$236,000, respectively. As at 31 December 2018 and 2017, the amounts of the Group's other receivables mainly represents consultancy fee income from Club Cubic Zhuhai of approximately HK$360,000 and nil, respectively.

19. LOAN RECEIVABLES

Loan receivables arise from the Group's money lending business which grants loans to entities in the food and beverage and entertainment industry. The loan receivables of approximately HK$5,450,000 were carrying interest at 10% per annum and the remaining of approximately HK$3,426,000 were interest-free. The loan receivables were repayable according to repayment schedules, normally with contractual maturity within one year as at 31 December 2018 and 2017. Included in loan receivables, there was approximately HK$1,000,000 as at 31 December 2018 (2017: HK$2,000,000) represented a loan to a related party which was unsecured, carried interest 10% per annum and repayable within one year.

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Loan receivables, gross	**8,876**	2,000
Less: allowance for credit losses	**(264)**	–
Loan receivables, net	**8,612**	2,000

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

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Within one year	**8,612**	2,000

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

20. CASH AND CASH EQUIVALENTS/BANK OVERDRAFTS

Cash and cash equivalents

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
MOP	**15,931**	13,451
HK$	**24,334**	35,257
RMB	**767**	459
	41,032	49,167

Cash and cash equivalents carry interest at 0.01% to 0.30% market rates per annum for the year ended 31 December 2018 (2017: 0.01% to 0.30%).

Bank overdrafts

Bank overdrafts carry interest at market rates which range from 5.3% to 5.4% (2017: nil) per annum.

21. ACCOUNT AND OTHER PAYABLES

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Account payables	**4,344**	6,158
Rental payables	**6,343**	3,154
Deferred rentals	**1,964**	1,968
Other payables	**11,118**	11,988
Accruals	**7,873**	6,865
	31,642	30,133
Portion classified as non-current		
— Deferred rentals	**(1,600)**	(1,833)
Current portion	**30,042**	28,300

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

21. ACCOUNT AND OTHER PAYABLES *(Continued)*

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

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
0 to 30 days	**4,052**	4,288
31 to 60 days	**216**	1,858
61 to 90 days	**20**	12
90 to 120 days	**–**	–
Over 120 days	**56**	–
	4,344	6,158

22. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are unsecured, interest-free and repayable over one year.

23. PROVISION FOR REINSTATEMENT COSTS

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
As at 1 January	**715**	–
Provision	**–**	715
As at 31 December	**715**	715
Less: Non-current portion	**(715)**	(715)
Current portion	**–**	–

Provision for reinstatement costs is recognized for the costs to be incurred for the reinstatement of the properties used by the Group for its operations upon expiration of the relevant leases. As at 31 December 2018, the Group expected that the total undiscounted costs required in the future would amount to approximately HK$715,000 (2017: HK$715,000).

24. SHARE CAPITAL

The share capital of the Group as at 31 December 2018 and 2017 represented the share capital of the Company. Movements of the share capital of the Company are as follows:

	2018		2017	
	Number of shares '000	Nominal value HK$'000	Number of shares '000	Nominal value HK$'000
Authorised				
Ordinary share of HK$0.01 each				
At 31 December	**10,000,000**	**100,000**	10,000,000	100,000
Issued and fully paid				
At 1 January and 31 December	**1,800,000**	**18,000**	1,800,000	18,000

25. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

(a) Statement of Financial Position

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Assets			
Non-current asset			
Investments in subsidiaries	8	–	–
Current assets			
Account and other receivables		2,194	1,296
Amounts due from subsidiaries		73,648	62,442
Cash and cash equivalents		428	14,369
		76,270	78,107
Liabilities			
Current liabilities			
Account and other payables		948	844
Net current assets		75,322	77,263
Total assets less current liabilities		75,322	77,263
Net assets		75,322	77,263
Equity			
Share capital	24	18,000	18,000
Reserve	25(b)	57,322	59,263
		75,322	77,263

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2019 and signed on its behalf by:

Choi Yiu Ying
Director

Choi Siu Kit
Director

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

(b) Reserve

	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation losses HK$'000	Total HK$'000
As at 1 January 2017	66,235	(4,245)	–	61,990
Loss and total comprehensive loss for the year	–	(2,727)	–	(2,727)
As at 31 December 2017 and 1 January 2018	66,235	(6,972)	–	59,263
Loss and total comprehensive loss for the year	–	(2,319)	378	(1,941)
As at 31 December 2018	66,235	(9,291)	378	57,322

At 31 December 2018, the Company had reserves of approximately HK$57,322,000 available for distribution in accordance with the Company law of Cayman Islands (2017: HK$59,263,000).

26. RETIREMENT BENEFIT PLANS

The Group provides defined contribution plans for its employees in Macau and Hong Kong.

Employees

Macau

Qualified employees of the Group in Macau are members of Social Security Fund Scheme (the "SSF Scheme") operated and managed by the Macau Government and the Group is required to pay a monthly fixed contribution to the SSF Scheme to fund the benefits. The obligation of the Group with respect to the SSF Scheme operated by the Macau Government is to make the required contributions under the scheme. The SSF Scheme was established under trust with the fund assets being held separately from those of the Group by independent trustees in Macau.

Hong Kong

Qualified employees of the Group in Hong Kong are members of Mandatory Provident Fund Schemes (the "MPF Schemes") administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the MPF scheme vest immediately. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The amounts charged to the Consolidated Statement of Profit or Loss which amounted to HK$1,258,000 (2017: HK$629,000) represents contributions payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of no (2017: no) arising from employees leaving the Group prior to completion of qualifying service period.

As at 31 December 2018, forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years amounted to nil (2017: nil).

27. SHARE OPTION SCHEME

A summary of the share option schemes of the Company are set out in the section headed "Share Option Schemes" in the Report of the Directors of the annual report.

The Company adopted a share option scheme on 18 October 2016 (the "Share Option Scheme"). The Share Option Scheme became effective on the date of the Company's listing (11 November 2016) and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

The offer of a grant of share options may be accepted within such time to be determined by the Board and upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised. The exercise price of the share options shall be not less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered, which must be a business day (the "Offer Date"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the par value of the Shares. On 2 October 2018, certain employees and consultants of the Group were granted shares options to subscribe for 30,142,308 shares at an exercise price of HK$0.061 per share.

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

27. SHARE OPTION SCHEME *(Continued)*

Detalis of specific categories of options are as follows:

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

Notes:

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

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

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

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

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

During the year ended 31 December 2018, 30,142,308 options were granted on 2 October 2018. The estimated fair values of the options on those day is approximately HK$920,000.

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

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

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

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

28. OPERATING LEASE ARRANGEMENTS

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

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Within one year	**13,971**	15,005
In the second to fifth year inclusive	**21,519**	33,642
	35,490	48,647

In addition, the operating lease rentals for club premises are included a fixed rental and a contingent rental depending on the net profit of the club operation pursuant to the terms and conditions as set out in the respective agreements. As the future net profit for the club operation could not be reliably determined, the relevant contingent rental has not been included in above table.

29. CAPITAL COMMITMENTS

The Group served a renewal notice with effect on 11 November 2016 to the owner of the club premise 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. As at 31 December 2018, the amount authorized but not contracted for was approximately HK$7.7 million (2017: HK$7.9 million). Capital commitments outstanding at the end of the reporting period contracted but not provided for in the consolidated financial statements in respect of the Expansion were as follows:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Plant and equipment	**697**	697

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

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Unpaid balance of capital contribution to a subsidiary in the PRC	**7,414**	7,300
Plant and equipment	**26**	1,196

30. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in these consolidated financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Compensation paid to key management personnel of the Group represented are disclosed in Note 11.

(b) During the years ended 31 December 2018 and 2017, the Group had the following transactions with related parties:

Related parties	Nature of transactions	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Zone One (CS) Limited (Note i)	Rental expenses	**1,200**	1,200
Bo Xing Group Company Limited (Note ii)	Service expenses	**–**	13
Xin Limited (Note iii)	Loan interest income	**179**	41
	Marketing Expenses	**133**	–

(c) The following table discloses the loan advanced to a related party for the year ended 31 December 2018 and 31 December 2017 (Note 19):

Name	Maximum amount outstanding during the year HK$'000	As at 31 December 2018 HK$'000	Maximum amount outstanding during the prior year HK$'000	As at 31 December 2017 HK$'000	Security held
Xin Limited (Note iii)	**2,000**	**1,000**	2,000	2,000	None

Notes:

i. Zone One (CS) Limited is held by Mr. Choi Kuen Kwan and Ms. Lo Mong Yee, who are the father and the mother of Mr. Choi Yiu Ying and Mr. Choi Siu Kit, who are the executive directors of the Group.

ii. The major shareholder of Bo Xing Group Company Limited is Star Century Investments Limited. Star Century Investments Limited is the former shareholder of Luk Hing Investment Limited. The executive directors of the Group are the ultimate shareholders of Star Century Investments Limited.

iii. Xin Limited is the subsidiary of Star Century Investments Limited. The executive director of the Group, Mr. Choi Siu Kit, is also the director of Xin Limited.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Liabilities from financing activities Amounts due to non-controlling interests borrow due after 1 year HK$'000
As at 1 January 2018	–
Loan from non-controlling interests	(4,112)
As at 31 December 2018	(4,112)

32. CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

33. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

34. SUBSEQUENT EVENTS

Subsequent to the end of the reporting period, the Group had no significant events occurred.

35. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group pursuant to Rule 18.33 of the GEM Listing Rules, as extracted from the published audited consolidated financial statements or published prospectus of the Company, is set out below:

	Year ended 31 December			
	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**206,868**	137,384	129,302	125,521
Listing expenses	**–**	–	(16,165)	(2,469)
Profit/(loss) before taxation	**3,713**	(13,295)	(6,184)	10,220
Total comprehensive income/(loss) for the year	**2,947**	(13,430)	(6,184)	9,420

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

DEFINITIONS AND GLOSSARY

"Board"	the board of Directors
"City of Dreams"	an integrated resort located on two adjacent pieces of land in Cotai, Macau, which was opened in June 2009 and owned by Melco Crown (COD) Developments Limited (now known as COD Resorts Limited)
"Club Cubic Macau"	a clubbing venue operated by the Group under the name of Cubic which was opened in April 2011 and located at 2nd and 3rd floor, The Boulevard, City of Dreams, Cotai, Macau
"Club Cubic Zhuhai"	a proposed clubbing venue in Zhuhai to be operated by a joint venture company in which the Group shall hold less than 20% interest, details of which are disclosed in the Company's announcement dated 12 December 2016, 10 February 2017, 11 April 2017, 11 May 2017 and 2 June 2017
"COD"	COD Resorts Limited, which merged with Melco Resorts (COD) Retail Services Limited (formerly known as Melco Crown (COD) Retail Services Limited), owner of the club premises of Club Cubic Macau
"Company"	Luk Hing Entertainment Group Holdings Limited (stock code: 8052), a company incorporated in the Cayman Islands with limited liability, and the issued Shares of which are listed on the GEM
"Controlling Shareholders"	has the meaning ascribed thereto in the GEM Listing Rules and in the case of our Company, means Welmen Investment Co. Ltd, Yui Tak Investment Limited, Ocean Concept Holdings Limited, Toprich Investment (Group) Limited, Perfect Succeed Limited, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong, Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing. 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 are regarded as parties acting in concert and a group of concerted shareholders by virtue of an acting in concert confirmation dated 2 March 2016
"Directors"	the directors of the Company
"DJ"	disc jockey
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	The Rules Governing the Listing of Securities on GEM
"Group"	the Company and/or any of its subsidiaries
"HEXA"	a modern Chinese restaurant operated by the Group under the name of HEXA which was opened in October 2017 and located at shop OTE 101, ground floor, Ocean Terminal, Harbour City, Tsim Sha Tsui, Hong Kong
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS AND GLOSSARY

"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the GEM Listing Rules
"Listing"	the listing of the Shares on GEM on 11 November 2016
"Macau"	The Macau Special Administrative Region of the PRC
"Monkey Museum Changsha"	a night club under the name of Monkey Museum operated by an Independent Third Party sub-franchisee identified and recruited by the Group pursuant to an exclusive master franchising agreement and a sub-franchising agreement, details of which are disclosed in the Company's announcements dated 28 December 2016 and 24 January 2017
"MOP"	Macau Pataca(s), the lawful currency of Macau
"M&A"	memorandum of association and articles of association
"Operating Agreement"	an operating agreement dated 28 April 2010 entered into between COD (as the owner) and Star Century Investments Limited (as the operator), novated by a novation agreement dated 14 January 2011 entered into between COD (as the owner), Star Century Investments Limited (as the old operator) and Luk Hing Investment Limited (as the new operator), and supplemented by a supplemental agreement dated 28 November 2012 and further supplemented by a second supplemental agreement dated 5 August 2016, concerning the operation of Club Cubic Macau
"PRC"	the People's Republic of China (for the purpose of this annual report, exclude Hong Kong, Macau and Taiwan)
"Prospectus"	the prospectus of the Company dated 27 October 2016
"RMB"	Renminbi, the lawful currency of the PRC
"Shares"	the ordinary shares of HK$0.01 each in the issued share capital of the Company
"Shareholders"	the holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States" or "US"	the United States of America
"US$" or "USD"	United States dollar, the lawful currency of the United States