THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, a licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Luk Hing Entertainment Group Holdings Limited (the "**Company**"), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

LH

LUK HING ENTERTAINMENT GROUP

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)

MAJOR TRANSACTION IN RELATION TO (I) ISSUANCE OF 1ST TRANCHE CONVERTIBLE PROMISSORY NOTES; (II) ISSUANCE OF 2ND TRANCHE CONVERTIBLE PROMISSORY NOTES; (III) ADDITIONAL INVESTMENT IN ZHUHAI JV COMPANY; AND (IV) INVESTMENT IN GUANGZHOU JV COMPANY

A letter from the Board is set out on pages 7 to 39 of this circular.

The Company has obtained written approval for the transactions pursuant to Rule 19.44 of the GEM Listing Rules from the controlling Shareholder of the Company which holds more than 50% of the issued share capital of the Company giving the right to attend and vote at a general meeting. Accordingly, no Shareholders' meeting will be convened to approve the transactions pursuant to Rule 19.44 of the GEM Listing Rules. This circular is being despatched to the Shareholders for information only.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of publication and on the Company's website at www.lukhing.com.

22 August 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate small and midsized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"1^{st} Tranche Convertible Promissory Notes"	the 1^{st} Tranche convertible promissory notes issued by the Company to the 1^{st} Tranche Investors pursuant to the 1^{st} Tranche Note Purchase Agreements
"1^{st} Tranche Investors"	Investor A, Investor B, Investor C, Investor D, Investor E and Investor F
"1^{st} Tranche Note Purchase Agreements"	the 1^{st} Tranche Note Purchase Agreements entered into between the Company and the 1^{st} Tranche Investors for purchase of the 1^{st} Tranche Convertible Promissory Notes
"2^{nd} Tranche Convertible Promissory Notes"	the 2^{nd} Tranche convertible promissory notes to be issued by the Company to the 2^{nd} Tranche Investor pursuant to the 2^{nd} Tranche Note Purchase Agreement
"2^{nd} Tranche Investor"	Investor C, a company incorporated under the laws of Hong Kong with limited liability and an Independent Third Party
"2^{nd} Tranche Note Purchase Agreement"	the 2^{nd} Tranche Note Purchase Agreement entered into between the Company and the 2^{nd} Tranche Investor for purchase of the 2^{nd} Tranche Convertible Promissory Notes
"Additional Investment"	the additional investment of RMB16 million (equivalent to approximately HK$18.16 million) by the Group to Zhuhai JV Company
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or Sunday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Club Cubic Guangzhou"	operation of clubbing business to be set up in Guangzhou by Guangzhou JV Company
"Club Cubic Macau"	a club located at 2nd and 3rd Floor, The Boulevard, City of Dreams operated by the Group
"Club Cubic Zhuhai"	operation of clubbing business to be set up in Zhuhai by Zhuhai JV Company
"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 of Stock Exchange

"Completion"	completion of the purchase of the 1^{st} Tranche Convertible Promissory Notes by the 1^{st} Tranche Investors and/or completion of the purchase of the 2^{nd} Tranche Convertible Promissory Notes by the 2^{nd} Tranche Investor where the context requires
"connected person(s)"	has the meaning ascribed to it in the GEM Listing Rules
"Conversion"	conversion of the respective principal amount of the Convertible Promissory Note in accordance with the Conversion Ratio by each of the Investors as stipulated under the section headed "Convertible Promissory Notes" in this circular
"Conversion Adjustment"	please refer to the section headed "The Convertible Promissory Notes" in this circular
"Conversion Ratio"	(i) in the event only Club Cubic Zhuhai has commenced business operation, the conversion ratio would be USD100,000 of the principal amount of the Convertible Promissory Notes to 1.03% of shares of Luk Hing China; or (ii) in the event both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced business operations, the conversion ratio would be USD100,000 of the principal amount of the Convertible Promissory Notes to 0.41% of shares of Luk Hing China and is subject to the Conversion Adjustment
"Convertible Promissory Notes"	the 1^{st} Tranche Convertible Promissory Notes and the 2^{nd} Tranche Convertible Promissory Notes
"Director(s)"	the directors of the Company
"EGM"	extraordinary general meeting
"Enlarged Group"	the Group immediately after completion of Additional Investment
"GEM Listing Rule(s)"	The Rules Governing the Listing of Securities on GEM
"Group"	the Company and/or any of its subsidiaries
"Guangzhou Baohui"	廣州寶輝文化發展有限公司 (Guangzhou Baohui Culture Development Company Limited*), a company established with limited liability under the laws of the PRC and a 2.22% equity holder of Zhuhai JV Company

"Guangzhou Investment"	the investment of RMB30 million by the Group to Guangzhou JV Company
"Guangzhou JV Agreement"	a legally binding joint venture agreement dated 19 July 2019 and entered into between Guangzhou PRC Company and Guangzhou JV Partner in relation to formation of Guangzhou JV Company
"Guangzhou JV Company"	廣東麒天文化發展有限責任公司(Guangdong Haotian Culture Development Co., Ltd.*), a limited liability joint venture established by Guangzhou PRC Company and Guangzhou JV Partner under the laws of the PRC whose principal business is operation of clubbing business which is named "Club Cubic Guangzhou". The equity interests of Guangzhou JV Company is held as to 60% and 40% by Guangzhou PRC Company and Guangzhou JV Partner respectively
"Guangzhou JV Partner"	廣東潤澤商業管理有限公司(Guangdong Runze Business Management Co., Ltd*), a company established under the laws of the PRC with limited liability and an Independent Third Party
"Guangzhou PRC Company"	珠海市陸慶麒天餐飲管理有限公司(Zhuhai Luqing Haotian Restaurant Management Co., Ltd.*), an indirect wholly-owned subsidiary of the Company and a wholly owned subsidiary of Guangzhou WFOE established with limited liability under the laws of the PRC
"Guangzhou WFOE"	珠海橫琴陸慶樺霖文化產業有限公司 (Zhuhai Hengqin Luqing Hualin Cultural Industry Co., Ltd.*), an indirect wholly-owned subsidiary of the Company established with limited liability under the laws of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standard
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	party(ies) who is independent of the Company and its connected persons and is not a connected person(s) of the Company
"Interest Period"	please refer to the section headed "Convertible Promissory Notes" in this Circular

"Investor A"	a company incorporated under the laws of Singapore limited by shares and an Independent Third Party
"Investor B"	a company incorporated under the laws of BVI with limited liability and an Independent Third Party
"Investor C"	a company incorporated under the laws of Hong Kong with limited liability and an Independent Third Party
"Investor D"	a company incorporated under the laws of Hong Kong with limited liability and an Independent Third Party
"Investor E"	a company incorporated under the laws of Hong Kong with limited liability and an Independent Third Party
"Investor F"	a company incorporated under the laws of Singapore limited by shares and an Independent Third Party
"Investors"	the 1^{st} Tranche Investors and the 2^{nd} Tranche Investor
"JV Companies"	the Zhuhai JV Company and the Guangzhou JV Company
"Latest Practicable Date"	19 August 2019 being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Luk Hing Capital"	Luk Hing Capital Limited, an indirect wholly-owned subsidiary of the Company incorporated with limited liability under the laws of Hong Kong
"Luk Hing China"	Luk Hing Group Development (China) Limited, an indirect wholly-owned subsidiary of the Company incorporated with limited liability under the laws of Hong Kong
"New Jin Yi"	New Jin Yi Investment Company Limited, a company incorporated with limited liability under the laws of Macau and a 10% equity holder of Zhuhai JV Company
"Note Purchase Agreements"	the 1^{st} Tranche Note Purchase Agreements and the 2^{nd} Tranche Note Purchase Agreement
"Oasis Capital"	Oasis Capital International Limited (海都國際有限公司), a company incorporated with limited liability under the laws of Hong Kong and a 29.44% equity holder of Zhuhai JV Company
"PRC"	the People's Republic of China

"RMB"	Renminbi, the lawful currency of the PRC
"Type 1 Discretionary Bonus"	please refer to the section headed "Convertible Promissory Notes" in this circular
"Type 2 Discretionary Bonus"	please refer to the section headed "Convertible Promissory Notes" in this circular
"USD"	United States dollar, the lawful currency of the United States of America
"Welmen"	Welmen Investment Co. Ltd, a limited company incorporated in BVI on 30 November 2015
"Zhuhai JV Agreement"	a legally binding joint venture agreement dated 19 July 2019 and entered into between Luk Hing China, Oasis Capital, Zhuhai Wei Chong, New Jin Yi, Guangzhou Baohui and Zhuhai Zhisheng in relation to the operation of Zhuhai JV Company
"Zhuhai JV Company"	珠海鋭燁酒吧管理有限公司 (Zhujai Ruiye Bar Management Company Limited*), a limited liability joint venture established under the laws of the PRC whose principal business is operation of clubbing business which is named "Club Cubic Zhuhai"
"Zhuhai Wei Chong"	珠海唯創文化傳播有限公司 (Zhuhai Wei Chong Culture Broadcasting Company Limited*), a company established with limited liability under the laws of the PRC and a 6.34% equity holder of Zhuhai JV Company
"Zhuhai WFOE"	珠海陸慶文化發展有限公司 (Zhuhai Luk Hing Cultural Development Company Limited*), an indirect wholly-owned subsidiary of the Company established with limited liability under the laws of the PRC and a 44.44% equity holder of Zhuhai JV Company
"Zhuhai Zhisheng"	珠海市智阩商務諮詢有限公司 (Zhuhai City Zhisheng Commercial Consultancy Company Limited*), a company established with limited liability under the laws of the PRC and a 7.56% equity holder of the Zhuhai JV Company
"%"	per cent

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1.00 to HK$1.135.

Conversion of USD into Renminbi is based on the approximate exchange rate of USD1.00 to RMB6.88.

* *For identification purposes only*

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)

Executive Directors:
Mr. Choi Yiu Ying
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

Registered Office:
P.O. Box 1350 Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Principal Place of Business in Hong Kong:
Room 1505, 15/F.
Shun Tak Centre West Tower
168-200 Connaught Road Central
Sheung Wan
Hong Kong

22 August 2019

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO (I) ISSUANCE OF 1ST TRANCHE CONVERTIBLE PROMISSORY NOTES; (II) ISSUANCE OF 2ND TRANCHE CONVERTIBLE PROMISSORY NOTES; (III) ADDITIONAL INVESTMENT IN ZHUHAI JV COMPANY; AND (IV) INVESTMENT IN GUANGZHOU JV COMPANY

INTRODUCTION

References are made to (i) the announcements of the Company dated 2 June 2017 and 10 June 2019 in relation to Zhuhai JV Company; and (ii) the announcements of the Company dated 3 July 2019 and 14 August 2019 in relation to the major transactions involving (i) the issuance of 1st Tranche Convertible Promissory Notes; (ii) the issuance of 2nd Tranche Convertible Promissory Notes; (iii) the Additional Investment and (iv) the Guangzhou Investment.

The purpose of this circular is to provide you with, amongst other things, (i) the Note Purchase Agreements and the transactions contemplated thereunder; (ii) the Additional Investment; (iii) the Guangzhou Investment; (iv) the accountants' report of Zhuhai JV Company; (v) the pro forma financial statements of the Enlarged Group and (vi) other information as required to be disclosed under the GEM Listing Rules.

THE NOTE PURCHASE AGREEMENTS

On 3 July 2019, the Company entered into the 1st Tranche Note Purchase Agreements with each of the 1st Tranche Investors in the aggregate principal amount of approximately RMB16.0 million (equivalent to approximately HK$18.16 million).

On 7 August 2019, the Company entered into the 2nd Tranche Note Purchase Agreement with the 2nd Tranche Investor in the principal amount of approximately RMB24.0 million (equivalent to approximately HK$27.24 million). The aggregate principal amount of the Note Purchase Agreements with the 1st Tranche Investors and the 2nd Tranche Investor are approximately RMB40.0 million (equivalent to approximately HK$45.4 million). The principal terms of the Note Purchase Agreements are summarised as follows:

	1st Tranche Note Purchase Agreements	**2nd Tranche Note Purchase Agreement**
Date	3 July 2019	7 August 2019
Parties	1. the 1st Tranche Investors as investors. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the 1st Tranche Investors and their ultimate beneficial owners are Independent Third Parties and not connected with the Group.	1. the 2nd Tranche Investor as investor. The 2nd Tranche Investor is Investor C who is also a 1st Tranche Investor who invested in RMB1.3 million of the 1st Tranche Convertible Promissory Note. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the 2nd Tranche Investor and its ultimate beneficial owner are Independent Third Parties and not connected with the Group.
	2. the Company, as issuer of the 1st Tranche Convertible Promissory Notes	2. the Company, as issuer of the 2nd Tranche Convertible Promissory Notes

<table>
<tr><th></th><th>1st Tranche Note Purchase Agreements</th><th>2nd Tranche Note Purchase Agreement</th></tr>
<tr><td>Aggregate principal amount under the Convertible Promissory Notes</td><td>approximately RMB16.0 million (equivalent to approximately HK$18.16 million)</td><td>approximately RMB24.0 million (equivalent to approximately HK$27.24 million)</td></tr>
<tr><td>Expected payment date</td><td>The principal amount under the 1st Tranche Convertible Promissory Notes has been paid to the Company</td><td>Shall be paid at completion on or before 31 December 2019</td></tr>
<tr><td>Use of proceeds under the Convertible Promissory Notes</td><td>The proceeds are intended to be used for the Additional Investment</td><td>The proceeds are intended to be used for the Guangzhou Investment</td></tr>
<tr><td>Conditions to Completion</td><td colspan="2">Completion is conditional upon:
(i) Investors having obtained all necessary internal consents and approvals in respect of the Note Purchase Agreements and the issuance of the relevant tranche of Convertible Promissory Notes; and
(ii) The Group having all necessary consents and approvals in respect of the Note Purchase Agreements and the issuance of the relevant tranche of Convertible Promissory Notes including the approval from the Hong Kong Stock Exchange.</td></tr>
</table>

THE CONVERTIBLE PROMISSORY NOTES

The terms of the 1st Tranche Convertible Promissory Notes and the 2nd Tranche Convertible Promissory Notes were arrived at after arm's length negotiations between the Company and the Investors. The major terms are summarised as follows:

	1st Tranche Convertible Promissory Notes	**2nd Tranche Convertible Promissory Notes**
Principal amount	approximately RMB16.0 million (equivalent to approximately HK$18.16 million)	approximately RMB24.0 million (equivalent to approximately HK$27.24 million)
Fixed interest rate	9% per annum (the "**Fixed Interest**")	
Term of the Convertible Promissory Notes	Commencing from the date of the 1st Tranche Note Purchase Agreements until 36 months from opening of Club Cubic Zhuhai.	Commencing from the date of the 2nd Tranche Note Purchase Agreement until 36 months from opening of Club Cubic Guangzhou.
Opening of Club Cubic Zhuhai or Club Cubic Guangzhou	The opening of Club Cubic Zhuhai shall not be later than three months from the date of issue of the 1st Tranche Convertible Promissory Notes.	The opening of Club Cubic Guangzhou shall not be later than six months from the date of issue of the 2nd Tranche Convertible Promissory Notes.
Interest Period	The interest accrues from opening of Club Cubic Zhuhai to the end of the term of the 1st Tranche Convertible Promissory Notes and interest shall be payable in four installments.	The interest accrues from opening of Club Cubic Guangzhou to the end of the term of the 2nd Tranche Convertible Promissory Notes and the interest shall be payable in four installments.
Rights of transfer or assignment	Each of the 1st Tranche Convertible Promissory Notes can be assigned or transferred in whole but not in part. The transferee should not be connected person of the Company.	Each of the 2nd Tranche Convertible Promissory Notes can be assigned or transferred in whole or in part. The transferee should not be connected person of the Company.

<table>
<tr><th></th><th>1st Tranche Convertible Promissory Notes</th><th>2nd Tranche Convertible Promissory Notes</th></tr>
<tr><td>Conversion rights (general)</td><td colspan="2">(i) Each Investor can exercise its right of Conversion under the respective Convertible Promissory Note individually. If such investor elects to exercise the Conversion, such Conversion can only be exercised in full but not in part.

(ii) According to the terms of the Convertible Promissory Notes, there is no prohibition on the 2nd Tranche Investor to exercise its right of Conversion in the event that the 1st Tranche Investors do not exercise theirs.

(iii) According to the terms of the Convertible Promissory Notes, the principal amounts under the Convertible Promissory Notes can only be converted into shares of Luk Hing China as the indirect holding company of the JV Companies. The Conversion can only be exercised under either of the two circumstances set out below: (a) can be exercised when Club Cubic Zhuhai has commenced operation (only in the case of the 1st Convertible Promissory Notes); or (b) can be exercised when both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced operations (in the case of the 1st Tranche Convertible Promissory Notes and/or the 2nd Convertible Promissory Notes).</td></tr>
<tr><td>Exercise of Conversion in the event only Club Cubic Zhuhai has commenced operation</td><td>The 1st Tranche Investors shall have the right to convert the entire principal amount of the 1st Tranche Convertible Promissory Notes in USD to such percentage of shareholding of Luk Hing China which shall be calculated based on the Conversion Ratio of USD100,000 of the principal amount to 1.03% (Note 3) of shares of Luk Hing China, provided that Luk Hing China shall in turn hold not less than 44.44% (Note 1) of the equity interests of Zhuhai JV Company.

Assuming all the 1st Tranche Investors exercised the Conversion, the Conversion would have the effect of disposing 10.67% (Note 2) of the Company's effective equity interests in Zhuhai JV Company.</td><td>Not Applicable. The conversion right under the 2nd Tranche Convertible Promissory Notes could not be exercised if only Club Cubic Zhuhai has commenced operation.</td></tr>
</table>

<table>
<tr><th></th><th>1st Tranche Convertible Promissory Notes</th><th>2nd Tranche Convertible Promissory Notes</th></tr>
<tr><td>Exercise of Conversion in the event both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced operations</td><td colspan="2">The Investors shall have the right to convert the entire principal amount of the Convertible Promissory Notes in USD to such percentage of shareholding of Luk Hing China which shall be calculated based on the Conversion Ratio of USD100,000 of the principal amount to 0.41% (Note 5) of shares of Luk Hing China, provided that Luk Hing China shall in turn hold not less than 44.44% (Note 1) and 60.0% (Note 4) of the respective equity interests of Zhuhai JV Company and Guangzhou JV Company. If Luk Hing China holds less than 60% of the equity interests of Guangzhou JV Company, such Conversion Ratio shall be adjusted in accordance with the Conversion Adjustment.

Assuming all the Investors exercised the Conversion, the Conversion would have the effect of disposing 10.67% (Note 2) of the Company's effective equity interests in Zhuhai JV Company and 14.40% (Note 6) of the Company's effective equity interests in Guangzhou JV Company.</td></tr>
<tr><td>Conversion Adjustment</td><td colspan="2">$$\frac{\text{Principal}}{(\text{RMB45.0 million/Ex.Rate}) \times 44.44\% + (\text{RMB50.0 million/Ex.Rate}) \times Y\ (\%)} \times 30\%\ ^{(Note\ 7)}$$

Where:

Y = The percentage (%) of equity interests held by Luk Hing China in Guangzhou JV Company

RMB45.0 million refers to the expected total investment in Zhuhai JV Company

RMB50.0 million refers to the expected total investment in Guangzhou JV Company

Ex. Rate refers to the exchange rate of USD:RMB at the time of the Conversion</td></tr>
<tr><td>Discretionary Bonus</td><td colspan="2">The Company would be responsible for the payment of Type 1 Discretionary Bonus or Type 2 Discretionary Bonus calculated based on the formula set out below. In addition to the Fixed Interest, the Discretionary Bonus shall be paid each year and it will be paid three times during the term of the Convertible Promissory Notes. However, in the event that the holder of the relevant Convertible Promissory Note elects not to exercise the Conversion, the outstanding principal under the relevant Convertible Promissory Note shall be deducted with such amount equivalent to the Type 1 Discretionary Bonus or the Type 2 Discretionary Bonus distributed to such holder.</td></tr>
</table>

	1st Tranche Convertible Promissory Notes	**2nd Tranche Convertible Promissory Notes**
Type 1 Discretionary Bonus (provided if only Club Cubic Zhuhai has commenced business operation):	$\dfrac{\text{principal amount of the 1st Tranche Convertible Promissory Note in USD}}{\text{USD100,000}} \times 1.03\% \times \text{the net profit of Luk Hing China}$ less the Fixed Interest	Not Applicable
Type 2 Discretionary Bonus (provided if both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced business operations):	$\dfrac{\text{principal amount of the relevant tranche Convertible Promissory Note in USD}}{\text{USD100,000}} \times 0.41\% \times \text{the net profit of Luk Hing China}$ less the Fixed Interest	
Cap of Discretionary Bonus	Payments of Type 1 Discretionary Bonus and Type 2 Discretionary Bonus are discretionary in nature and are both subject to a cap of 40% per annum on the principal amount of the Convertible Promissory Note (the "**40% Discretionary Bonus Cap**")	
Redemption	If any of the Investors elects not to exercise the Conversion, the entire principal amount of the Convertible Promissory Note shall be redeemed by the Company at a redemption amount equal to the entire principal amount of the Convertible Promissory Note together with Fixed Interests accrued thereon, subject to the Adjustment (the "**Redemption**")	
Adjustment	The Redemption amount shall be adjusted in accordance with the following formula: If and whenever the Company shall make any distribution of Discretionary Bonus to Investors, the redemption amount shall be: $A - B$ where: A = the total investment amount, being the principal of the Convertible Promissory Note B = the actual amount paid out of discretionary bonuses	

Note 1: The calculation of 44.44% represents the percentage of total investment of the Group in Zhuhai JV Company (i.e. RMB20 million) as part of the total investment of all shareholders in Zhuhai JV Company (i.e. RMB45 million). Since the 44.44% equity interests held by Zhuhai WFOE in Zhuhai JV Company is fixed during the term of the Convertible Promissory Notes, therefore no adjustment mechanism is necessary in the 1st Tranche Convertible Promissory Notes.

Note 2: The calculation of 10.67% is arrived at by dividing the entire principal amount of the 1^{st} Tranche Convertible Promissory Notes (i.e. RMB16.0 million) by the total investment by all shareholders in Zhuhai JV Company (i.e. RMB45.0 million) and multiplying it by 30% (i.e. applying a 70% discount) (the "**70% Discount**"). The relevant formula is set out as follows:

$$\frac{\text{RMB16.0 million}}{\text{RMB45.0 million}} \times 30\% = 10.67\%$$

Note 3: The calculation of 1.03% is arrived at by dividing USD100,000 by the total investment made by the Group in Zhuhai JV Company in US dollars based on current exchange rate and applying the 70% Discount. In other words, for every USD100,000 invested in Zhuhai JV Company, the 1^{st} Tranche Investors will be entitled to 1.03% shareholding of Luk Hing China should they elect to exercise the Conversion. The relevant formula is set out as follows:

$$\frac{\text{USD 100,000}}{\left(\frac{45{,}000{,}000}{6.88} \times 44.44\%\right)} \times 30\% = 1.03\%$$

Note 4: The calculation of 60.0% represents the percentage of total investment of the Group in Guangzhou JV Company (i.e RMB30 million) as part of the total investment of all shareholders in Guangzhou JV Company (i.e. RMB50 million).

Note 5: The calculation of 0.41% is arrived at by dividing USD100,000 by the total investments made by the Group in the JV Companies in USD based on current exchange rate and applying the 70% Discount. In other words, for every USD100,000 invested in the JV Companies, the 1^{st} Tranche Investors and/or the 2^{nd} Tranche Investor will be entitled to 0.41% shareholding of Luk Hing China should they elect to exercise the Conversion. The relevant formula is set out as follows:

$$\frac{\text{USD100,000}}{\left(\frac{\text{RMB45,000,000}}{6.88} \times 44.44\% + \frac{\text{RMB50,000,000}}{6.88} \times 60\%\right)} \times 30\% = 0.41\%$$

Note 6: The calculation of 14.40% is arrived at by dividing the entire principal amount of the 2^{nd} Tranche Convertible Promissory Notes (i.e. RMB24.0 million) by the total investment in Guangzhou JV Company (i.e. RMB50.0 million) and applying the 70% Discount. The relevant formula is set out as follows:

$$\frac{\text{RMB24 million}}{\text{RMB50 million}} \times 30\% = 14.40\%$$

Note 7: The formula of the Conversion Adjustment denotes the portion of the principal amount of the Note out of the total amount of investments indirectly made by the Group in the JV Companies in USD based on exchange rate at the time of Conversion and applying the 70% Discount. This represents the percentage of shares that the investors of Luk Hing China are entitled to hold should they elect to exercise the Conversion if there is a Conversion Adjustment.

Basis of the (i) valuation of the JV Companies; (ii) 70% Discount and the Conversion; (iii) Conversion of shares at Luk Hing China entity level; and (iv) 40% Discretionary Bonus Cap

Basis of valuation of the JV Companies

The Company and the Investors valued the Zhuhai JV Company and the Guangzhou JV Company at approximately RMB150 million (equivalent to approximately HK$170 million) and RMB166 million (equivalent to approximately HK$188 million), respectively, and such valuation of the JV Companies (the "**Valuation**") is based on the following factors:

1. Since the business, revenue model and expected maximum capacity of Club Cubic Zhuhai and Club Cubic Guangzhou are expected to be similar to Club Cubic Macau, the Company and Investors have referred to the operating net profit of Club Cubic Macau derived from the management accounts of Club Cubic Macau for the year ended 31 December 2018 of approximately HK$16 million (equivalent to approximately RMB14 million) as reference for the estimated earnings of each of the JV Companies.

2. The Company has selected the comparable companies based on the following criteria (i) companies engaged in operation of night club or similar nightlife entertainment business such as operation of bar and/or karaoke pursuant to which sales of alcoholic drinks and beverages are two essential elements to the operation of entertainment business; and (ii) companies with positive P.E. Ratio. Based on such criteria, the Company has identified 3 comparable companies which according to the Directors' best knowledge and belief met such criteria.

Company Name and Stock Code	Name of Stock Exchange	Business nature	Price-earnings ratio as at 5 August 2019
Holiday Entertainment Co., Ltd. (9943.TT)	Taiwan	management and consultancy for karaoke, as well as restaurant operations and distributes and sells audiovisual equipment and supplies	10.49
Cashbox Partyworld Co. Ltd. (8359. TT)	Taiwan	operates private karaoke rooms throughout Taiwan and China	20.22
Bar Pacific Group Holdings Limited (8432. HK)	Hong Kong	operates chain bars in Hong Kong	12.59

The Company has adopted a price-earnings ratio ("**P.E. Ratio**") of around 11 to 12 times for Club Cubic Zhuhai and Club Cubic Guangzhou. Since the JV Companies are not listed companies and have yet to commence business operations, the Company has adopted a lower end of the P.E. Ratios of the abovementioned comparable companies for valuation of the JV Companies.

The Directors considered that the above comparables are fair and representative samples to determine the valuation of JV Companies as (i) the business nature of the comparable companies are similar to that of the JV Companies which involve nightlife entertainment and there are no similar comparable which engage only in the operation of night club in the PRC; and (ii) the financial information of private companies operating similar business as JV Companies are not publicly available.

3. The Company has also adopted a slightly higher P.E. Ratio for Club Cubic Guangzhou since Guangzhou is larger city than Zhuhai in terms of population and GDP per capita.

Based on the above factors and since Club Cubic Zhuhai and Club Cubic Guangzhou are expected to open in the third quarter of 2019 and the first quarter of 2020, respectively, the Directors are of the view that the Valuation and the P.E. Ratio of the JV Companies are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Basis of 70% Discount and the Conversion

Since the current expected total investment of the JV Companies are approximately 30% of their respective valuation, the Conversion is subject to a 70% Discount. The relevant formulae are set out below for illustration purpose:

$$\frac{\text{Expected total investment of Zhuhai JV Company}}{\text{Valuation of Zhuhai JV Company}} = \frac{\text{RMB45 million}}{\text{RMB150 million}} = 30\%$$

$$\frac{\text{Expected total investment of Guangzhou JV Company}}{\text{Valuation of Guangzhou JV Company}} = \frac{\text{RMB50 million}}{\text{RMB166 million}} = 30\%$$

Taking into account the 70% Discount and assuming all the Investors exercised the Conversion, the Conversion would have the effect of disposing 10.67% the Company's effective equity interests in Zhuhai JV Company and 14.40% of the Company's effective equity interests in Guangzhou JV Company, which is equivalent to the aggregate principal amount of the 1st Tranche Convertible Promissory Notes (i.e. RMB16.0 million) and the 2nd Tranche Convertible Promissory Notes (i.e. RMB24.0 million).

Accordingly, the exercise of the Conversion and the 70% Discount is beneficial to the Company and its shareholders as the Group has only contributed RMB4.0 million and RMB6.0 million from its internal resources to Zhuhai JV Company and Guangzhou JV Company, respectively, representing approximately 20% of the Group's total capital commitment in the JV Companies, with the remaining 80% of the Group's capital commitment being funded by the proceeds from the Convertible Promissory Notes.

The table below sets out the relevant amounts of (i) internal resources; (ii) proceeds from Convertible Promissory Notes; (iii) the Group's total investment; and (iv) percentage of equity interests of the relevant JV Company attributable to each of the figures under (i), (ii) and (iii).

	Expected total investment	(i) The Group's contribution from its internal resources; and (ii) percentage of equity interests of the relevant JV Company attributable to such sum of internal resources	(i) Proceeds from the Convertible Promissory Notes; and (ii) percentage of equity interests of the relevant JV Company attributable to such proceeds	(i) Total investment of the Group and (ii) percentage of equity interests of the relevant JV Company held by the Group
Zhuhai JV Company	RMB45 million	RMB4.0 million (8.89%)	RMB16.0 million (35.56%)	RMB20.0 million (44.44%)
Guangzhou JV Company	RMB50 million	RMB6.0 million (12%)	RMB24.0 million (48%)	RMB30.0 million (60%)

Assuming all Investors exercised the Conversion, the JV Companies will continue to remain as indirect subsidiaries of the Company as the convertible shares are subject to a 70% Discount.

	Percentage of equity interests of the relevant JV Company held by the Group before Conversion	Percentage of equity interests held by the Group assuming full conversion	Percentage of equity interests held by Investors assuming full conversion
Zhuhai JV Company	44.44%	33.77%	10.67%
Guangzhou JV Company	60%	45.60%	14.40%

Basis of conversion of shares at Luk Hing China entity level

The Directors are of the view that the Conversion of principal amounts under the Convertible Promissory Notes should be converted to shares of Luk Hing China since (i) Luk Hing China and its subsidiaries (together the "**Luk Hing China Group**") will be holding 44.44% of the effective equity interests of Zhuhai JV Company and 60% of the effective equity interests of Guangzhou JV Company upon completion of the Additional Investment and the Guangzhou Investment and the net asset value of Luk Hing China Group will be equivalent to the carrying amounts of the Group's investments in the JV Companies; and (ii) Conversion was set at Luk Hing China entity level for easier administration when transferring the effective equity interests in the Zhuhai JV Company and the Guangzhou JV Company to the Investors when the Investors exercised the Conversion.

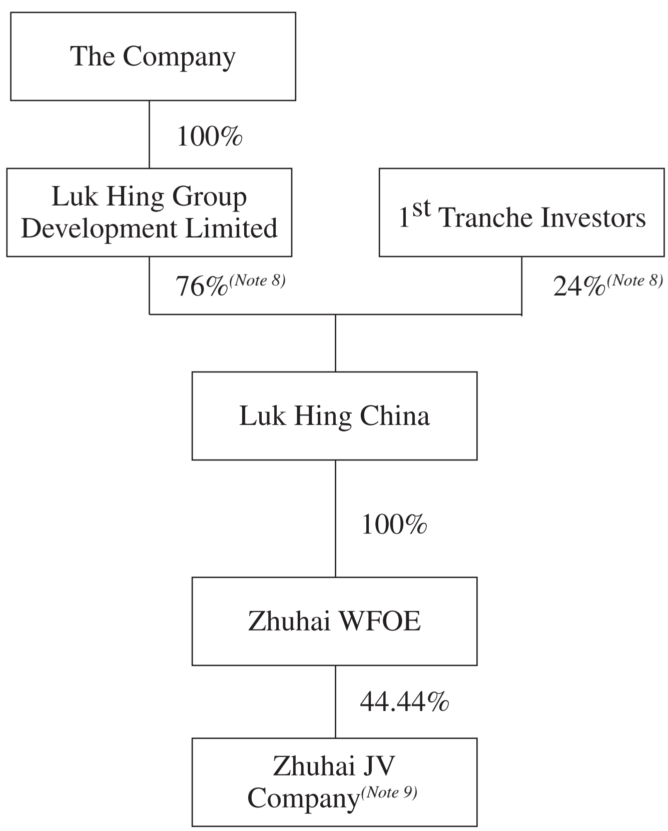
Basis of 40% Discretionary Bonus Cap

The 40% Discretionary Bonus Cap was arrived at after arms' length negotiations with the Investors. The Directors are of the view that the 40% Discretionary Bonus Cap is fair and reasonable and in the interests of the Company since (i) the 40% Discretionary Bonus Cap provides the Investors with a higher incentive to exercise the Conversion rather than redeeming their principal amounts under the Convertible Promissory Notes; and (ii) the Discretionary Bonus is discretionary in nature and contingent upon Luk Hing China (the indirect holding company of the JV Companies) having net profits for the relevant financial year.

Shareholding Structure of Luk Hing China, Zhuhai WFOE and Guangzhou WFOE

Set out below for illustration purpose, is the shareholding structure of Luk Hing China, Zhuhai WFOE and Guangzhou WFOE, assuming full Conversion of the Convertible Promissory Notes into shares of Luk Hing China:

(i) In the event only Club Cubic Zhuhai has commenced business operation and assuming full Conversion of the 1st Tranche Convertible Promissory Notes into shares of Luk Hing China

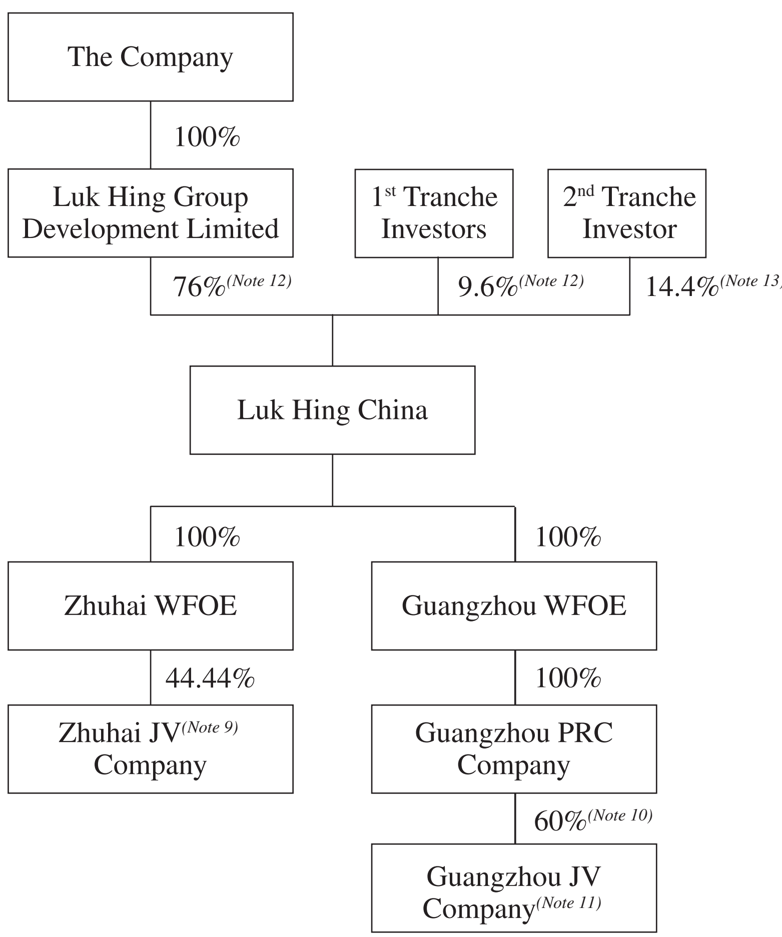


Note 8: Assuming full Conversion of the 1st Tranche Convertible Promissory Notes into shares of Luk Hing China, the Conversion would have the effect of disposing 24% equity interest in Luk Hing China. The calculation of 24% is arrived at by dividing the entire principal amount of the 1st Tranche Convertible Promissory Notes (i.e. RMB16.0 million) by the total investments made by the Group in Zhuhai JV Company and applying the 70% Discount. The relevant formula is set out as follows:

$$\frac{\text{RMB16 million}}{\text{RMB45 million} \times 44.44\%} \times 30\% = 24\%$$

Note 9: The remaining shareholding of Zhuhai JV Company is held as to 29.44%, 6.34%, 10%, 2.22% and 7.56% by Oasis Capital, Zhuhai Wei Chong, New Jin Yi, Guangzhou Baohui and Zhuhai Zhisheng respectively.

(ii) In the event both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced business operations and assuming full Conversion of the 1st Tranche Convertible Promissory Notes and the 2nd Tranche Convertible Promissory Notes into shares of Luk Hing China



Note 10: The percentage of shareholding is subject to the Conversion Adjustment if the percentage of effective equity interests held by Luk Hing China is not 60%.

Note 11: The remaining shareholding of Guangzhou JV Company will be held as to 40% by Guangzhou JV Partner.

Note 12: Assuming full Conversion of the 1st Tranche Convertible Promissory Notes into shares of Luk Hing China, the Conversion would have the effect of disposing 9.6% equity interest in Luk Hing China. The calculation of 9.6% is arrived at by dividing the entire principal amount of the 1st Tranche Convertible Promissory Notes (i.e. RMB16.0 million) by the total investments made by the Group in the JV Companies and applying the 70% Discount. The relevant formula is set out as follows:

$$\frac{\text{RMB16 million}}{\text{RMB45 million x 44.44\% + RMB50 million x 60\%}} \text{ x } 30\% = 9.6\%$$

Note 13: Assuming full Conversion of the 2nd Tranche Convertible Promissory Notes into shares of Luk Hing China, the Conversion would have the effect of disposing 14.4% equity interest in Luk Hing China. The calculation of 14.4% is arrived by dividing the entire principal amount of the 2nd Tranche Convertible Promissory Notes (i.e. RMB24.0 million) by the total investments made by the Group in the JV Companies and applying the 70% Discount. The relevant formula is set out as follows:

$$\frac{\text{RMB24 million}}{(\text{RMB45 million} \times 44.44\% + \text{RMB50 million} \times 60\%)} \text{ x } 30\% = 14.4\%$$

Effect on Shareholding Structure of the Luk Hing China held by the Company

The change in shareholding of Luk Hing China indirectly held by the Company assuming full Conversion of the Convertible Promissory Notes and no other change in the issued share capital of Luk Hing China is set out below:

Name of shareholders of Luk Hing China	**As at the Latest Practicable Date** *% of issued share capital*	**In the event only Club Cubic Zhuhai has commenced business operation and assuming full Conversion of the 1st Tranche Convertible Promissory Notes** *% of issued share capital*	**In the event both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced business operations and assuming full Conversion of the 1st Tranche Convertible Promissory Notes and the 2nd Tranche Convertible Promissory Notes** *% of issued share capital*
The Company	100	76	76
1st Tranche Investors	–	24	9.6
2nd Tranche Investor	–	–	14.4
Total equity	100	100	100

In view of the above, assuming full Conversion of the 1st Tranche Convertible Promissory Notes and/or 2nd Tranche Convertible Notes, the Company expects that Luk Hing China and the JV Companies will continue to remain as subsidiaries of the Company.

Information of the 1st Tranche Investors

Investor A

Investor A is a company incorporated under the laws of Singapore limited by shares and is an investment holding company with investments in companies engaging in mining, technology, pharmaceutical and food catering business.

Investor B

Investor B is an investment holding company incorporated under the laws of BVI with limited liability with investments in steel trading and securities firm business in the PRC.

Investor C

Investor C is a company incorporated under the laws of Hong Kong with limited liability and is an investment holding company and is not currently engaged in any business activity. The ultimate beneficial owner of Investor C has investments in cultural and entertainment business.

Investor D

Investor D is a company incorporated under the laws of Hong Kong with limited liability and is an investment holding company and is not currently engaged in any business activity. The ultimate beneficial owner of Investor D has investments in cultural and entertainment business in Hong Kong and the PRC.

Investor E

Investor E is a company incorporated under the laws of Hong Kong with limited liability and is an investment holding company and is not currently engaged in any business activity. The ultimate beneficial owner of Investor E has investments in entertainment business in the PRC.

Investor F

Investor F is a company incorporated under the laws of Singapore limited by shares and is an investment holding company and is not currently engaged in any business activity. The ultimate beneficial owner of the Controlling Shareholder of Investor F has investments in clubbing business in Singapore.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the 1st Tranche Investors and their ultimate beneficial owners are Independent Third Parties and not connected with the Group.

ADDITIONAL INVESTMENT IN ZHUHAI JV COMPANY

Background

On 19 July 2019, Zhuhai WFOE, an indirect subsidiary of the Company, entered into the Zhuhai JV Agreement with Oasis Capital, Zhuhai Wei Chong, New Jin Yi, Guangzhou Baohui and Zhuhai Zhisheng pursuant to which the parties agreed to inject further investment in the form of capital contribution and shareholder's loan into Zhuhai JV Company.

The Board had resolved to increase the Group's investment in Zhuhai JV Company by approximately RMB16 million (equivalent to approximately HK$18.16 million). The proceeds from the 1st Tranche Convertible Promissory Notes are intended to be used to satisfy the Additional Investment.

Information of Zhuhai JV Company

Formation and purpose of establishment

Zhuhai JV Company is established on 24 July 2017 as a joint venture limited liability company in the PRC with a registered capital of RMB20 million and an expected total investment of RMB45 million and is principally engaged in the operation and management of Club Cubic Zhuhai. The scope of business of Zhuhai JV Company includes but not limited to the provision of food and beverage services, and engagement in retail and trading business.

By setting up Club Cubic Zhuhai, the Group intends to expand the Group's coverage in offering premium clubbing and entertainment experience to the PRC under the "Club Cubic" brand name.

Corporate Governance and board composition

Zhuhai WFOE, being the major shareholder upon completion of the Additional Investment is responsible for the running of Zhuhai JV Company's daily business operations and overall communication between Zhuhai JV Company and different parties.

The board of directors of Zhuhai JV Company currently consists of three (3) directors. Luk Hing China, Oasis Capital and New Jin Yi shall appoint one director each.

The quorum for board meeting shall be three directors. Every director shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for re-election. The board of directors of Zhuhai JV Company shall be responsible for, among other things, the approval of the annual budgets, changes in capital structure, formulation of dividend proposals, acquisition and disposal of major assets, and changes to the composition of the executive committee, etc. The approval of certain of such matters require the unanimous consent of the board. The board may from time to time delegate its powers to executive committees or other senior management to carry out its duties.

Distribution of profits

Profits of Zhuhai JV Company shall be distributed to the shareholders in proportion with the amount of investment by the shareholders in Zhuhai JV Company.

Club Cubic Zhuhai

The table below set out the details of Club Cubic Zhuhai:

Address	:	Shop no. 24, Level 1, Zone B, HI City, No. 29 Yuwan Road, Xiang Zhou District, Zhuhai City
Gross floor area	:	2,003.3 sq. m.
Expected opening date	:	Currently undergoing renovation and expected to open in the third quarter of 2019
Expected maximum capacity	:	Approximately 945 persons

Total investment amount before and after completion of the Additional Investment

Since its formation, a majority of the capital and loans received from shareholders of Zhuhai JV Company has been used in carrying out renovation and decoration of the venue. The Additional Investment was determined by the Board after due consideration of capital requirements for the renovation and the financial needs of Zhuhai JV Company to meet other expenses such as rental fees and administrative expenses in opening of Club Cubic Zhuhai. Guangzhou Baohui and Zhuhai Zhisheng will also invest in Zhuhai JV Company.

The total investment of Zhuhai JV Company before and after completion of the Additional investment is set out below:

		Before the Additional Investment		**After the Additional Investment**	
No.	**Shareholder**	**Total Investment (paid up or committed to be paid up)** *(RMB million)*	**Percentage of equity interest/ total investment** *(%)*	**Total investment (paid up or committed to be paid up)** *(RMB million)*	**Percentage of equity interest/ total investment** *(%)*
1	Zhuhai WFOE	3.894	19.47	20	44.44
2	Oasis Capital	9.666	48.33	13.25	29.44
3	Zhuhai Wei Chong	1.24	6.20	2.85	6.34
4	New Jin Yi	5.2	26.00	4.5	10.00
5	Guangzhou Baohui	NA	NA	1	2.22
6	Zhuhai Zhisheng	NA	NA	3.4	7.56
	Total	20	100	45	100

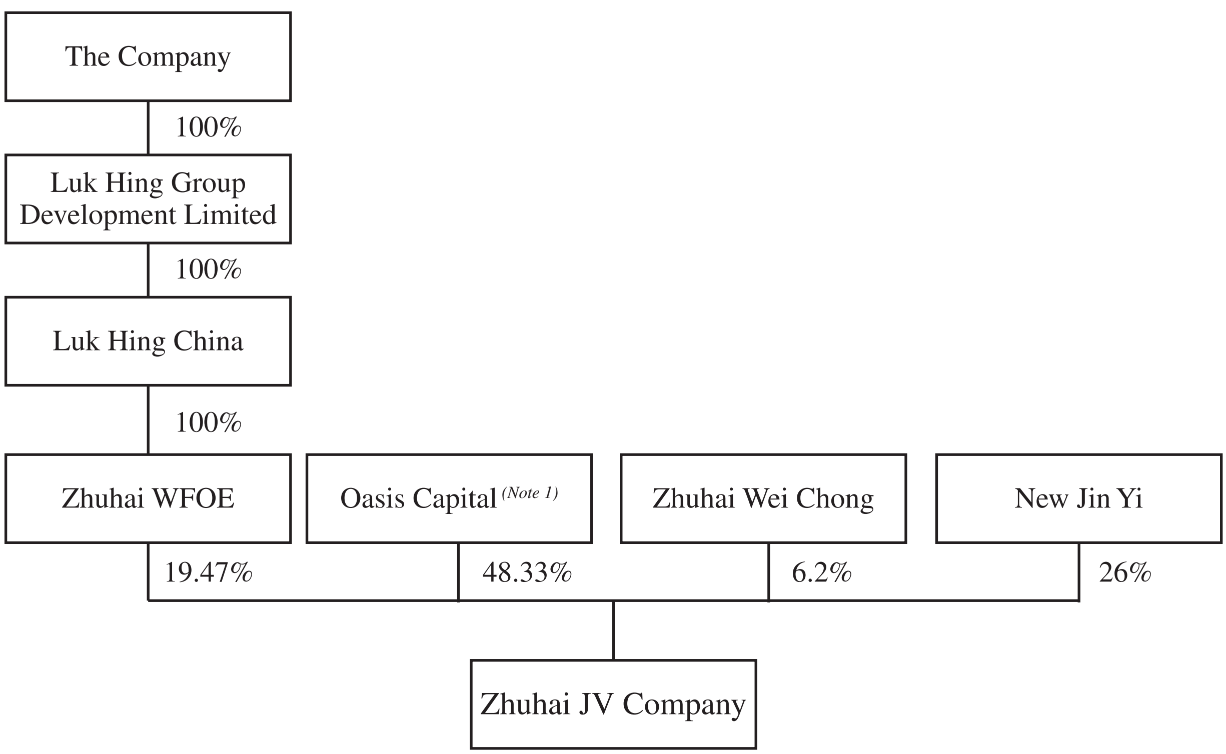
To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, Zhuhai Wei Chong, New Jin Yi, Guangzhou Baohui and Zhuhai Zhisheng and their ultimate beneficial owners are Independent Third Parties and not connected with the Group. Oasis Capital is a non-wholly owned subsidiary of the Company.

Following completion of the Additional Investment, Zhuhai JV Company will remain an indirect subsidiary of the Company and the financial results of Zhuhai JV Company will be consolidated into the financial statements of the Company.

Structure of Zhuhai JV Company

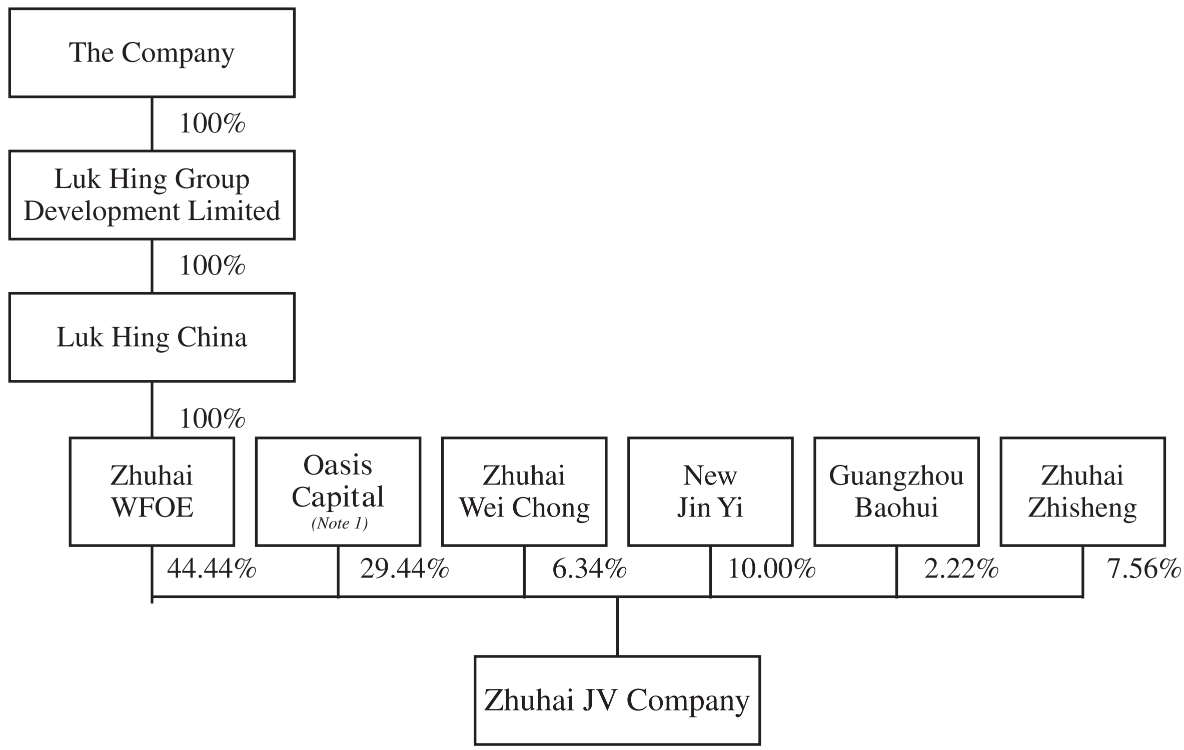
Set out below is the investment percentage by shareholders of Zhuhai JV Company of the Group's Structure before and after completion of the Additional Investment:

(i) before completion of the Additional Investment:



Note 1: The shareholding of Oasis Capital is held as to 60.38% by Luk Hing Capital and the remaining 39.62% are held by four Independent Third Parties.

(ii) after completion of the Additional Investment and other investments by other shareholder:



Basis of the Additional Investment

The Additional Investment was arrived at after arm's length negotiations between Zhuhai WFOE and the shareholders after taking into account of the capital requirement for Zhuhai JV Company in costs for setting up Club Cubic Zhuhai and renovation of the venue. The breakdown of the estimated and actual expenses in setting up of Club Cubic Zhuhai is as follows:

	Estimated expenses *(RMB'000)*	**Actual expenses as at Latest Practicable Date** *(RMB'000)*
Deposits and advance rental fees to landlord	1,200	800
Capital expenditure	38,000	32,400
Marketing expenses	1,000	–
Others	5,000	4,800

Financial Information of Zhuhai JV Company

Set out below is the audited financial information of the JV Company for the two financial years ended 31 December 2017 and 2018 prepared in accordance with PRC GAAP:

	For the Financial year ended 31 December	
	2017	**2018**
	RMB	*RMB*
Net loss before taxation and extraordinary items	nil	nil
Net loss after taxation and extraordinary items	nil	nil

The total asset and net asset values of the JV Company as at 31 December 2017 were RMB8,145,000 and RMB5,134,000, respectively. The total asset and net asset values of the JV Company as at 31 December 2018 were RMB13,189,000 and RMB5,134,000, respectively.

FINANCIAL EFFECTS OF THE ADDITIONAL INVESTMENT

Upon completion of the Additional Investment, Zhuhai JV Company will remain an indirect non-wholly owned subsidiary of the Company.

As the funds in the Additional Investment will be raised by way of the issuance of the 1^{st} Tranche Convertible Promissory Notes, the total assets of the Enlarged Group will increase by approximately HK$18,167,000 and the total liabilities of the Enlarged Group will increase by approximately HK$17,398,000 in recognition of the liability component of the 1st Tranche Convertible Promissory Notes. The fair value of the liability component will be determined based on a valuation report to be prepared by an independent professional valuer in future.

MANAGEMENT DISCUSSION AND ANALYSIS OF ZHUHAI JV COMPANY

Set out below is the management discussion and analysis of the Zhuhai JV Company for the period commencing from 24 July 2017 (date of its formation) to the period ended 31 May 2019 (the "**Reporting Period**"), which is based on the financial information of Zhuhai JV Company as set out in the accountants' report in Appendix II to this circular.

Business review

Zhuhai JV Company is established on 24 July 2017 as a joint venture limited liability company in the PRC and is principally engaged in the operation and management of Club Cubic Zhuhai. Renovation of Club Cubic Zhuhai has largely been completed and the opening of Club Cubic Zhuhai is expected in the third quarter of 2019.

Financial review

Revenue

During the Reporting Period, the Zhuhai JV Company did not record any revenue.

Administrative expenses

Administrative expenses of Zhuhai JV Company was HK$3,740,000 for the period ended 31 May 2019, HK$8,959,000 for the year ended 31 December 2018 and HK$1,928,000 for the year ended 31 December 2017. These included mainly the pre-operating expenses and rental accrual expenses.

Finance costs

For the Reporting Period, the finance costs of Zhuhai JV Company was approximately HK$961,000 mainly for the interest expenses on lease liabilities.

Loss for the Reporting Period

Loss for the Zhuhai JV Company was approximately HK$4,701,000 for the period ended 31 May 2019, HK$8,959,000 for the year ended 31 December 2018 and HK$1,928,000 for the year ended 31 December 2017.

Liquidity and financial resource

(i) As at 31 May 2019, cash and cash equivalents of Zhuhai JV Company amounted to approximately HK$3,397,000.

(ii) As at 31 May 2019, the current ratio (defined as total current assets divided by total current liabilities) of Zhuhai JV Company was approximately 2.6 times and the gearing ratio, being the ratio of the total liabilities to total assets, was approximately 97%.

Capital commitment

Zhuhai JV Company had no material capital commitment as at 31 May 2019.

Treasury policy

Zhuhai JV Company had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the Reporting Period.

Exchange exposure

Zhuhai JV Company 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 Zhuhai JV Company does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Zhuhai JV Company will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arises.

Dividend

No dividend was declared during the Reporting Period.

Contingent liabilities

Zhuhai JV Company did not have any material contingent liabilities as at 31 May 2019.

Significant investment

There was no significant investment held by Zhuhai JV Company as at 31 May 2019.

Acquisitions and disposals of subsidiaries and affiliated company

Zhuhai JV Company had no acquisitions or disposals of subsidiaries and affiliated companies during the Reporting Period.

Capital structure

The share capital of Zhuhai JV Company was HK$21,133,000 as at 31 May 2019.

Segment information

Zhuhai JV Company principally engages in the operation and management of Club Cubic Zhuhai in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. The chief operating decision maker considers that there is only one operating segment, which is used to make strategic decisions. Zhuhai JV Company did not have any revenue for the Reporting Period. As at 31 May 2019, all of the non-current assets were located in the PRC.

INVESTMENT IN GUANGZHOU JV COMPANY

The Board is pleased to announce that on 19 July 2019, Guangzhou PRC Company, an indirect subsidiary of the Company and a wholly-owned subsidiary of Guangzhou WFOE, entered into the Guangzhou JV Agreement with Guangzhou JV Partner in respect of the formation of Guangzhou JV Company in the PRC.

Guangzhou JV Agreement

The major terms of Guangzhou JV Agreement and further information on the business of Guangzhou JV Company are set out as follows:

Date: 19 July 2019

Parties:
(i) Guangzhou PRC Company; and
(ii) Guangzhou JV Partner;

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Guangzhou JV Partner and its respective ultimate beneficial owners are third parties independent of the Company and not the connected persons of the Company.

Scope of Business: The expected principal business of Guangzhou JV Company is the operation and management of Club Cubic Guangzhou. The scope of business of Guangzhou JV Company includes but not limited to the provision of food and beverage services, engagement in retail and trading business and organisation of featured events.

Registered Capital: RMB20 million. Guangzhou PRC Company and Guangzhou JV Partner agreed to inject RMB12 million and RMB8 million respectively, being the capital contribution to registered capital on or before 31 December 2019.

Expected total Investment Amount and Capital Commitment: RMB50 million, which was determined after arm's length negotiations by all parties to the Guangzhou JV Agreement based on the need to finance the business contemplated under the Guangzhou JV Agreement.

Of the total investment amount of RMB50 million, it is agreed that RMB30 million will be contributed by Guangzhou PRC Company and RMB20 million will be contributed by Guangzhou JV Partner.

The amount of shareholders' loans, capital contribution to registered capital and percentage of equity interest in Guangzhou JV Company are as follows:

No.	**Shareholder**	**Capital contribution to registered capital** *(RMB million)*	**Shareholders' Loans** *(RMB million)*	**Percentage of equity interest** *(%)*
1	Guangzhou PRC Company	12	18	60
2	Guangzhou JV Partner	8	12	40
	Total	20	30	100

Profit Sharing:	The profits will be distributed among the shareholders of Guangzhou JV Company in accordance with the stipulated proportion by unanimous written resolution or ordinary resolution in shareholders' meeting.
Board Composition:	The board of directors of Guangzhou JV Company shall consists of five (5) directors, of which three (3) will be appointed by Guangzhou PRC Company and two (2) will be appointed by Guangzhou JV Partner.

In relation to the RMB30 million to be contributed by Guangzhou PRC Company, RMB24 million will be funded by way of issuance of the 2nd Tranche Convertible Promissory Notes and RMB6 million will be funded by way of internal resources.

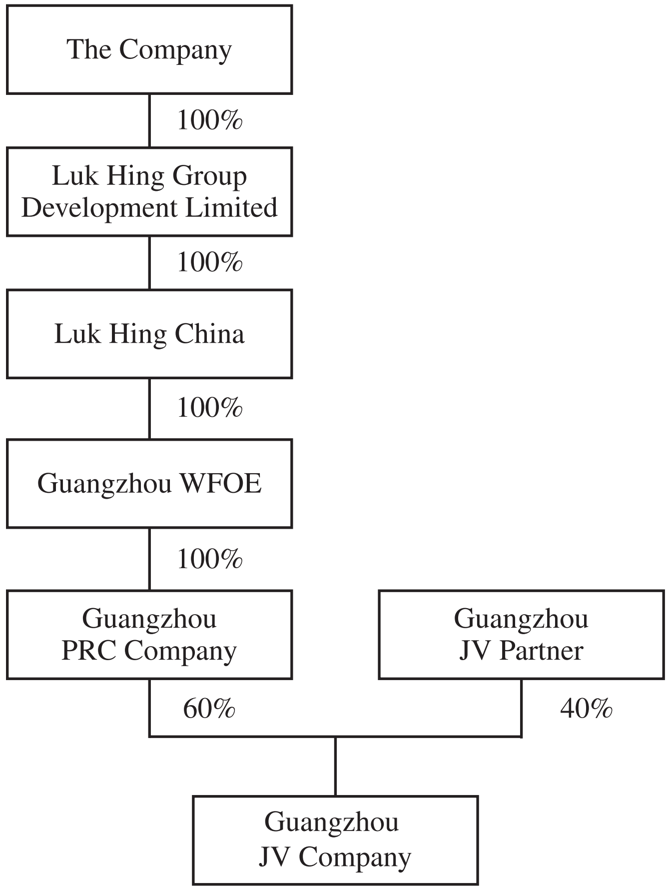
In consideration of the above, the Directors are of the view that the establishment of Guangzhou JV Company is in line with the Group's business objectives to expand the Group's coverage in offering premium clubbing and entertainment experience to the PRC under the "Club Cubic" brand name and to broaden the business spectrum of the Group. The Group expects the operation of Club Cubic Guangzhou would be similar to the operation of Club Cubic Zhuhai.

Club Cubic Guangzhou

The table below set out the details of Club Cubic Guangzhou:

Address	:	Shop no. 01–02, L1M, Four Seas Plaza, No. 390, East of Hanxi Avenue, Nancun Town, Panyu District, Guangzhou City
Gross floor area	:	2,552 sq. m.
Expected opening date	:	Expected to open in the first quarter of 2020
Expected maximum capacity	:	Approximately 960 persons

Expected Shareholding Structure of Guangzhou JV Company



Basis of the Guangzhou Investment

The Guangzhou Investment was arrived after taking into account (i) the size and operation model of the establishment of Club Cubic Guangzhou; (ii) the registered capital of RMB20 million; and (iii) the capital requirement for Guangzhou JV Company in costs for setting up Club Cubic Guangzhou and renovation of the venue.

The breakdown of the estimated expenses in setting up of Club Cubic Guangzhou is as follows:

	Estimated expenses *(RMB'000)*
Deposits and advance rental fees to landlord	1,850
Renovation costs	39,000
Marketing expenses	4,500
Others	3,750

Financial Effect of the Guangzhou Investment

Upon completion, Guangzhou JV Company will become an indirect non-wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Guangzhou JV Company will be consolidated into the accounts of the Group.

As the funds in the Guangzhou Investment will be raised by way of the issuance of the 2^{nd} Tranche Convertible Promissory Notes, the total assets of the Group should be impacted by the increase in cash received and the total liabilities of the Group shall be impacted by the increase in recognition of the liability component of the 2^{nd} Tranche Promissory Notes upon the issuance having been completed and the 2^{nd} Tranche Convertible Promissory Notes having been issued, in which the fair value of the liability component will be with reference to a valuation report to be prepared by an independent professional valuer in future.

INFORMATION OF THE PARTIES

The Company and the Group

The Company is a company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in 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.

Luk Hing China

Luk Hing China is an investment holding company with 44.44% effective equity interests in Zhuhai JV Company following completion of the Additional Investment and 60% effective equity interests in Guangzhou JV Company following completion of the Guangzhou Investment.

1st Tranche Investors

Six investors of the 1st Tranche Convertible Promissory Notes (including Investor A, Investor B, Investor C, Investor D, Investor E and Investor F). To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, they and their ultimate beneficial owners are Independent Third Parties and not connected with the Group. For details of the background of the 1st Tranche Investors, please refer to the section headed "Information of the 1st Tranche Investors".

2nd Tranche Investor

Investor C, a company incorporated under the laws of Hong Kong with limited liability and an Independent Third Party. Investor C is also a 1^{st} Tranche Investor who invested in RMB1.3 million of the 1^{st} Tranche Convertible Promissory Note.

Shareholders of Zhuhai JV Company

Zhuhai WFOE

珠海陸慶文化發展有限公司 (Zhuhai Luk Hing Cultural Development Company Limited*), an indirect wholly-owned subsidiary of the Company established with limited liability under the laws of the PRC and a 44.44% equity holder of Zhuhai JV Company upon completion of the Additional Investment and contribution of the investment amounts committed to be paid up by Guangzhou Baohui and Zhuhai Zhisheng. Zhuhai WFOE is an investment holding company and is not currently engaged in any business activity.

Oasis Capital

Oasis Capital International Limited (海都國際有限公司), an indirect subsidiary of the Company and a company incorporated with limited liability under the laws of Hong Kong and a 29.44% equity holder of Zhuhai JV Company upon completion of the Additional Investment and contribution of the investment amounts committed to be paid up by Guangzhou Baohui and Zhuhai Zhisheng. Apart from that, Oasis Capital is not currently engaged in any business activity and does not have any assets. The equity interests of Oasis Capital is held as to 60.38% by Luk Hing Capital and the remaining 39.62% are held by four Independent Third Parties.

Zhuhai Wei Chong

珠海唯創文化傳播有限公司 (Zhuhai Wei Chong Culture Broadcasting Company Limited*), a company established with limited liability under the laws of the PRC and a 6.34% equity holder of Zhuhai JV Company upon completion of the Additional Investment and contribution of the investment amounts committed to be paid up by Guangzhou Baohui and Zhuhai Zhisheng. Zhuhai Wei Chong is principally engaged in the provision of food catering business in the PRC which has been established in Zhuhai for more than 10 years. The ultimate beneficial owner of Zhuhai Wei Chong is Mr. Zhang Wenbo (張文博).

New Jin Yi

New Jin Yi Investment Company Limited, a company incorporated with limited liability under the laws of Macau and a 10% equity holder of Zhuhai JV Company upon completion of the Additional Investment and contribution of the investment amounts committed to be paid up by Guangzhou Baohui and Zhuhai Zhisheng. New Jin Yi is principally engaged in property investment and import and export trading business in the PRC and Macau. The ultimate beneficial owner of New Jin Yi is Mr. Wu Zhiliang (伍志良).

Guangzhou Baohui

廣州寶輝文化發展有限公司 (Guangzhou Baohui Culture Development Company Limited*), a company established with limited liability under the laws of the PRC and a 2.22% equity holder of Zhuhai JV Company upon completion of the Additional Investment and contribution of the investment amounts committed to be paid up by Guangzhou Baohui and

Zhuhai Zhisheng. Guangzhou Baohui is principally engaged in the entertainment business, including the set up and operation of large-scale musical events and performances in the PRC. The ultimate beneficial owner of Guangzhou Baohui is Mr. Hu Weiming (胡為明).

Zhuhai Zhisheng

珠海市智阩商務諮詢有限公司 (Zhuhai City Zhisheng Commercial Consultancy Company Limited*), a company established with limited liability under the laws of the PRC and a 7.56% equity holder of Zhuhai JV Company upon completion of the Additional Investment and contribution of the investment amounts committed to be paid up by Guangzhou Baohui and Zhuhai Zhisheng. Zhuhai Zhisheng is principally engaged in the provision of food catering business in Zhuhai. The ultimate beneficial owner of Zhuhai Zhisheng is Mr. Zhong Zhengqiang (鍾正強).

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, Zhuhai Wei Chong, New Jin Yi, Guangzhou Baohui and Zhuhai Zhisheng and their ultimate beneficial owners are Independent Third Parties. Zhuhai WFOE and Oasis Capital are indirect subsidiaries of the Company.

Shareholders of Guangzhou JV Company

Guangzhou PRC Company

珠海市陸慶麒天餐飲管理有限公司(Zhuhai Luqing Haotian Restaurant Management Co., Ltd.*), an indirect wholly-owned subsidiary of the Company and a wholly owned subsidiary of Guangzhou WFOE established with limited liability under the laws of the PRC and a 60% equity holder of Guangzhou JV Company.

Guangzhou JV Partner

廣東潤澤商業管理有限公司(Guangdong Runze Business Management Co., Ltd*), a company established under the laws of the PRC with limited liability and a 40% equity holder of Guangzhou JV Company. Guangzhou JV Partner is an investment holding company and is not currently engaged in any business activity.

The ultimate beneficial owners of Guangzhou JV Partner are Mr. Zhu Xiangnian (朱相年) and Mr. Wu Zhifeng (伍志烽). Both of them are based in Guangzhou with various investments in the PRC in financial services, entertainment, technology and trading business.

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, Guangzhou JV Partner and its ultimate beneficial owners are Independent Third Parties and not connected with the Group.

Business Model and Revenue Model of Club Cubic Zhuhai and Club Cubic Guangzhou

Club Cubic Zhuhai and Club Cubic Guangzhou will operate clubbing business and will have a similar business and revenue model to Club Cubic Macau. Club Cubic Zhuhai and Club Cubic Guangzhou are expected to generate the majority of the revenue through (i) the sale of alcoholic drinks within their premises; (ii) sponsorship fees from other companies and (iii) the entrance fees from customers, with a minimum spending required for reservations of tables, private booths and karaoke rooms. Target customers of Club Cubic Zhuhai and Club Cubic Guangzhou consist of well-educated, sophisticated tourists with high income. Minimum charge is required in order to secure a table and a VIP room. Furthermore, VIPs and top-tier customers who are inclined to consume also enjoy special privileges, such as the ability to order drinks on credit.

Since Club Cubic Zhuhai and Club Cubic Guangzhou are operated in the form of joint ventures, the Group will charge each of the clubs (i) monthly management fee of RMB120,000; and (ii) fixed 4% annual royalty fee out of the revenue, for the services provided for daily operation and management of both clubs.

REASONS FOR AND BENEFITS OF THE ISSUANCE OF CONVERTIBLE PROMISSORY NOTES, THE ADDITIONAL INVESTMENT AND THE GUANGZHOU INVESTMENT

Issuance of Convertible Promissory Notes to the Investors

Compared to bank borrowings or other fund-raising alternatives, issuance of convertible promissory note is a common financing instrument with lower costs and allows a company to raise large amount of funds at lower financing costs while imposing no material burden on the balance sheet.

The Board is of the view that the issuance of Convertible Promissory Notes is in the interest of the Company since (i) it can alleviate the pressure of funds for the pre-opening and operation cost of Club Cubic Zhuhai and Club Cubic Guangzhou and (ii) co-operating with Investors with investment experiences in the entertainment business and other industries in the PRC can leverage on their business experience in the PRC for the operation of Club Cubic Zhuhai and Club Cubic Guangzhou in the PRC. In addition, the exercise of the Conversion will not result in any change of control of the Group in the JV Companies as the convertible shares are subject to a 70% Discount. For details of the 70% Discount, please refer to the section headed "Basis of the 70% Discount and the Conversion" in this circular.

The issuance of Convertible Promissory Notes is also in line with the Company's business strategy, i.e. working with business partners or investors to mitigate risk exposure when expanding to regions other than Macau. It also benefits the long-term development of the Company by broadening the capital base of the Company. The JV Companies provide a valuable investment opportunity for the Group to extend its clubbing business development portfolio.

Formation of the JV Companies with other shareholders

The Group is principally engaged in the operation of clubbing business and restaurants, with established leading position in the clubbing industry. Forming joint ventures for the operation of Club Cubic Zhuhai and Club Cubic Guangzhou with other shareholders represents a strategic opportunity for the Group to expand its scope of services by venturing into the clubbing industry in the PRC and enhance its geographical presence through the operation of Club Cubic Zhuhai and Club Cubic Guangzhou in Zhuhai and Guangzhou respectively.

By engaging the shareholders of the JV Companies as joint venture partners, the Group can unleash its strength in operating clubbing business and benefit from the shareholders' experience and expertise in food catering, entertainment and local network. At the same time, the Group can expand its source of fund and also enable the parties to complement their distinct edges to go from strength to strength. The Group engaged the shareholders of the JV Companies as joint venture partners based on following reasons:

(i) Zhuhai Wei Chong and Zhuhai Zhisheng have experience in food catering business in the PRC which can provide local network and industry knowledge in relation to sales of beverage and food products in the daily operation of Club Cubic Zhuhai;

(ii) New Jin Yi has experience in the import and export trading business in the PRC and Macau. With the gradual growth in the economy of the Greater Bay Area, New Jin Yi's experience in import and export trading business will support Club Cubic Zhuhai in sourcing suppliers for food, beverage and tobacco products; and

(iii) Guangzhou Baohui and Guangzhou JV Partner have experience in entertainment businesses in the PRC and therefore will benefit both clubs with their network of suppliers and/or sponsorship in the entertainment business and assist in the Group's marketing activities and events to be held by the clubs.

The Board is of the view that forming joint ventures with these shareholders can mitigate the Company's risk exposure and leverage various aspects of business experience among the shareholders for the operation of Club Cubic Zhuhai and Club Cubic Guangzhou in the PRC.

The Company's business expansion to the Pearl River Delta

Expanding the clubbing business to the Pearl River Delta is one of the Company's major strategies to strengthen its leading position in the clubbing industry. Being one of the most densely populated and economically prosperous regions in the Guangdong province, the Pearl River Delta Economic Zone has an incomparable potential for development. Recent expansionary policies targeting Guangdong-Hong Kong-Macau Greater Bay Area (the "**Greater Bay Area**") are expected to further boost the growth of the zone.

The development of the Greater Bay Area will enhance the connectivity of different cities within the Pearl River Delta Economic Zone. Transport links such as the Shenzhen-Zhongshan Bridge is expected to come into operation in 2024 which will highly reduce the travelling time between Shenzhen and Zhuhai to within an hour. The mobility of people will sharply boost the consumption power on the Company's clubbing business. The development of the Greater Bay Area will further create a synergy effect to the clubbing business in Macau, Zhuhai and Guangzhou which will be a significant factor to our Group's profitability from business within the Greater Bay Area.

The Company is of the view that Club Cubic Zhuhai and Club Cubic Guangzhou will generate positive revenue with significant development potential.

Building of the Company's brand name in the PRC

The diversified outlet network of the Company can help develop "Cubic" into a well-known premium clubbing brand in the PRC. In addition, the Company's source of income upon the commencement of Club Cubic Zhuhai and Club Cubic Guangzhou is broadened and the Company is expected to gear up for more valuable business investment opportunities in the PRC.

The Company intends to commence the operation of Club Cubic Zhuhai and Club Cubic Guangzhou in the near future. A unique "Cubic" night lifestyle in the JV Companies would be promoted to the public in Greater Bay Area. The large floor space of the clubbing venues of Club Cubic Zhuhai and Club Cubic Guangzhou can accommodate larger crowds compared to other types of night entertainment venues.

Club Cubic Zhuhai and Club Cubic Guangzhou will also endeavour to keep abreast of the latest trends and developments in the clubbing business and evaluate different new concepts in order to keep the music, visual effects, designs, decorations and sound equipment in Club Cubic up-to-date. Resident DJs, dancers and performers stationed in Club Cubic provide live performance to our customers. Our Group collaborates with different musical talents to maintain the high quality of music performance at Club Cubic.

The Company believes that brand's reputation and the continuing success of the two ventures in marketing are the key attractions to invite guest DJs and artists to perform. From the perspective of marketing, collaborations with internationally acclaimed DJs and artists allow us to attract customers and enable us to maintain the market awareness of our brand and uphold our reputation.

In view of the above, the Directors consider that the terms of the Note Purchase Agreement and the transactions contemplated thereunder, the Additional Investment and the Guangzhou Investment, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER GEM LISTING RULES

Issuance of 1st Tranche Convertible Promissory Notes

Assuming all 1st Tranche Investors exercised the Conversion, the Conversion would have the effect of (i) disposing approximately 24% of the Company's effective equity interests in Luk Hing China; and (ii) Luk Hing would pay Type 1 Discretionary Bonus (provided if only Club Cubic Zhuhai has commenced business operation) or Type 2 Discretionary Bonus (provided if both Club Cubic Zhuhai and Club Cubic Guangzhou have commenced business operations). As one or more of the applicable percentage ratios of the Conversion relating to the 1st Tranche Convertible Promissory Notes is greater than 5% but less than 25%, the

Conversion in respect of the 1st Tranche Convertible Promissory Notes constitutes a discloseable transaction under Rule 19.06 of the GEM Listing Rules and is only subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

Issuance of 2nd Tranche Convertible Promissory Notes

Assuming all 2nd Tranche Investor exercised the Conversion, the Conversion would have the effect of (i) disposing approximately 14.40% of the Company's effective equity interests in Luk Hing China; and (ii) Luk Hing would pay Type 2 Discretionary Bonus to the 2nd Tranche Investor. As one or more of the applicable percentage ratios of the Conversion relating to the 2nd Tranche Convertible Promissory Notes is greater than 25% but less than 75%, the Conversion constitutes a major transaction of the Company under Rule 19.06 of the GEM Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Issuance of 1st Tranche Convertible Promissory Notes and Issuance of 2nd Tranche Convertible Promissory Notes to Investor C

Assuming Investor C exercised the Conversion in respect of its subscribed 1st Tranche Convertible Promissory Notes and the 2nd Tranche Convertible Promissory Notes, the Conversion would have the effect of (i) disposing approximately 15.18% of the Company's effective equity interests in Luk Hing China; and (ii) Luk Hing would pay Type 2 Discretionary Bonus to Investor C. As one or more of the applicable percentage ratios of the Conversion relating to the 1st Tranche Convertible Promissory Notes and the 2nd Tranche Convertible Promissory Notes subscribed by Investor C is greater than 25% but less than 75%, the Conversion constitutes a major transaction of the Company under Rule 19.06 of the GEM Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Additional Investment

As the percentage ratios pursuant to the GEM Listing Rules applicable to the Additional Investment when aggregated with the initial capital contribution to Zhuhai JV Company in the sum of approximately RMB4.0 million (equivalent to approximately HK$4.54 million) as announced by the Company on 2 June 2017 and the capital contribution by Luk Hing Capital through Oasis Capital to Zhuhai JV Company in the sum of RMB8.0 million (equivalent to approximately HK$9.08 million) as announced by the Company on 10 June 2019 exceed 25% but is less than 100%, such aggregated amounts constitute a major transaction of the Company pursuant to Rule 19.06 of the GEM Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 19 of the GEM Listing Rules.

Guangzhou Investment

As the percentage ratios pursuant to the GEM Listing Rules applicable to the Guangzhou Investment and total investment to Guangzhou JV Company by other investors exceed 25% but is less than 100%, the Guangzhou Investment constitutes a major transaction of the Company pursuant to Rule 19.06 of the GEM Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 19 of the GEM Listing Rules.

WRITTEN SHAREHOLDERS' APPROVAL

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder or any of its close associates has any material interest in the Note Purchase Agreements and the transactions contemplated thereunder, the Additional Investment and the Guangzhou Investment, and therefore no Shareholder is required to abstain from voting if the Company were to convene an EGM for the approval of the above transactions. The Company has obtained a written approval from Welmen (the controlling shareholder of the Company holding 1,093,500,000 Shares, representing 60.75% of the issued share capital of the Company as at the date of this announcement) for approving the Note Purchase Agreements and the transactions contemplated thereunder, the Additional Investment and the Guangzhou Investment. Accordingly, the written approval from Welmen will be accepted in lieu of holding an EGM pursuant to Rule 19.44 of the GEM Listing Rules.

If the Company were to convene an EGM for the approval of the transactions and voting was required, the Directors would have recommended the Shareholders to vote in favour of such resolution based on the reasons set out in this letter.

RECOMMENDATION

Having considered the reasons set out herein, the Directors are of the view that (i) the 1st Tranche Note Purchase Agreements and the transactions contemplated thereunder; (ii) the 2nd Tranche Note Purchase Agreement and the transactions contemplated thereunder; (iii) the Additional Investment; and (iv) the Guangzhou Investment, are entered into on normal commercial terms, and the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GENERAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. THREE-YEAR FINANCIAL INFORMATION

Audited financial information of the Group for each of the three financial years ended 31 December 2016, 2017 and 2018 was disclosed in the annual reports of the Company published on 31 March 2017, 28 March 2018 and 28 March 2019, respectively on both the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.lukhing.hk).

2. INDEBTEDNESS STATEMENT

Statement of Indebtedness of the Enlarged Group

Borrowings

As at the close of business on 30 June 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Enlarged Group was as follows:

	HK$'000
Bank overdraft, secured	1,652
Amounts due to non-controlling interests, unsecured	7,536
Lease liabilities	53,020
Loan payable, unsecured	9,080
	71,288

Bank facilities

As at the close of business on 30 June 2019, the Enlarged Group had facilities of approximately HK$6 million and the Enlarged Group had utilise facilities of approximately HK$1.7 million.

Lease Liabilities

Our lease liabilities were related to the right-of-use assets of premises with a weighted average effective interest rate 3.74% to 8.15% per annum for the period ended 30 June 2019. Our total lease liabilities amounted to approximately HK$53.0 million as at 30 June 2019. As at 30 June 2019, being the latest practicable date for the purpose of determining indebtedness, our Group had lease liabilities of approximately HK$53.0 million and are not secured by the charge over the lease assets.

Save as disclosed above and normal trade and other payables in the ordinary course of the business, the Enlarged Group did not have any other outstanding bank or other borrowings, mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantee, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments or other contingent liabilities as at the close of business of 30 June 2019.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances and other internal resources available and also the effect of (i) the issuance of 1st Tranche Convertible Promissory Notes; (ii) the issuance of 2nd Tranche Convertible Promissory Notes; (iii) the Additional Investment; and (iv) the Guangzhou Investment, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of publication of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that they were not aware of any material adverse change in the financial position or trading position of the Group since 30 June 2019, being the date to which the latest published unaudited interim financial statements of the Group was made up, up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in food and beverage and entertainment industry. The 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.

As disclosed in 2018 annual report of the Company, 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 the Group's annual music festival event as compared to that of last year. Profit attributable to owners of the Company was HK$2.2 million for the year ended 31 December 2018 while the Group 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 the Group's 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.

In view of the changing lifestyle and keen competition in the clubbing market in Macau, the Group recognizes that renovation and expansion of Club Cubic Macau would refresh the Group's brand image and broaden the customer base. At the same time, Club Cubic Macau as the pioneer of the clubbing industry in Macau will certainly benefit from the opening of the Hong Kong-Zhuhai-Macau Bridge which brings more tourists to Macau. In line with the Group's business expansion arising from the Hong Kong Zhuhai-Macau Bridge, the Group has been expanding the scale of Club Cubic Macau. After renovation and expansion, Club Cubic Macau will be a more spacious, sophisticated and high-end club, endowing customers with a wealth of premium club experience.

To expand the Group's market share and increase the Group's market penetration in the restaurant business, the Group will open a new restaurant, SIXA, which serves simple mid-ranged Cantonese cuisine at the newly renovated Citygate Outlets in Tung Chung. The expected pool of potential customers is immense, since Tung Chung will serve as a transportation hub near the Hong Kong-Zhuhai-Macau Bridge, providing convenient connections between the Lantau Island and major cities in the Pearl River Delta. Potential customer visit will also be overwhelmingly boosted. The Group has a strong faith that SIXA will be a milestone for the Group's restaurant business development.

Furthermore, the Group has long been seeking opportunities to expand to regions other than Macau. The first trial of clubbing business in Mainland China, Club Cubic Zhuhai, will commence very soon. Operating Club Cubic Zhuhai in Mainland China with other business partners is a breakthrough for the Group's clubbing business.

The following is the text at a report set out on pages II-1 to II-41, received from the Target Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this investment circular.

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

22 August 2019

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ZHUHAI RUIYE BAR MANAGEMENT COMPANY LIMITED TO THE DIRECTORS OF LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED

Introduction

We report on the historical financial information of Zhuhai Ruiye Bar Management Company Limited (the "**Target Company**") set out on pages II-4 to II-41, which comprises the statements of financial position as at 31 December 2017, 31 December 2018 and 31 May 2019, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the period then ended (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-41 forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Luk Hing Entertainment Group Holdings Limited (the "**Company**") dated 22 August 2019 (the "**Circular**") in connection with the proposed additional investment in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2017, 31 December 2018 and 31 May 2019, and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Company which comprises the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the five months ended 31 May 2018 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 10 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Company's in respect of the Relevant Periods.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Kwok Tsz Chun
Practicing Certificate Number: P06901

Hong Kong, 22 August 2019

HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information of the Target Company is based, were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statement**").

The Historical Financial Information is presented in Hong Kong Dollars ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

Statements of Profit or Loss and Other Comprehensive Income

	Notes	For the period from 24 July 2017 (date of incorporation) to 31 December 2017 HK$'000	Year ended 31 December 2018 HK$'000	Five months ended 31 May 2018 HK$'000 (unaudited)	Five months ended 31 May 2019 HK$'000
Revenue	5	–	–	–	–
Administrative expenses		(1,996)	(9,278)	(3,880)	(3,486)
Finance cost	6	–	–	–	(947)
Loss before taxation	7	(1,996)	(9,278)	(3,880)	(4,433)
Taxation	8	–	–	–	–
Loss for the year/period		(1,996)	(9,278)	(3,880)	(4,433)
Other comprehensive income/(loss)					
Item that may be reclassified subsequently to profit and loss:					
Exchange differences arising on translation		750	(1,087)	586	(193)
Total comprehensive loss for the year/period		(1,246)	(10,365)	(3,294)	(4,626)
Loss for the year/period attributable to:					
Owners of the Target Company		(1,996)	(9,278)	(3,880)	(4,433)
Total comprehensive loss for the year/period attributable to:					
Owners of the Target Company		(1,246)	(10,365)	(3,294)	(4,626)

Statements of Financial Position

		As at 31 December		As at 31 May
		2017	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Plant and equipment	*12*	1,846	4,974	11,471
Right-of-use assets	*13*	–	–	20,785
		1,846	4,974	32,256
Current assets				
Other receivables, prepayments and deposits	*14*	18,950	15,965	13,842
Cash and cash equivalents	*15*	5,683	3,250	3,397
		24,633	19,215	17,239
LIABILITIES				
Current liabilities				
Other payables	*16*	1,918	6,210	1,464
Loan payable	*17*	–	3,007	4,137
Lease liabilities	*18*	–	–	934
		1,918	9,217	6,535
Net current assets		22,715	9,998	10,704
Total assets less current liabilities		24,561	14,972	42,960
Non-current liabilities				
Loan payables	*17*	2,650	3,426	9,046
Lease liabilities	*18*	–	–	27,291
		2,650	3,426	36,337
Net assets		21,911	11,546	6,623
Equity				
Share capital	*19*	23,157	23,157	23,157
Reserves		(1,246)	(11,611)	(16,534)
		21,911	11,546	6,623

Statement of Changes in Equity

	Share capital *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 24 July 2017	–	–	–	–
Issue of shares	23,157	–	–	23,157
Loss for the period	–	–	(1,996)	(1,996)
Other comprehensive income	–	750	–	750
As at 31 December 2017 and 1 January 2018	23,157	750	(1,996)	21,911
Loss for the year	–	–	(9,278)	(9,278)
Other comprehensive loss	–	(1,087)	–	(1,087)
As at 31 December 2018 and 1 January 2019	23,157	(337)	(11,274)	11,546
Loss for the period	–	–	(4,433)	(4,433)
Impact on initial application of HKFRS 16	–	–	(297)	(297)
Other comprehensive loss	–	(193)	–	(193)
As at 31 May 2019	23,157	(530)	(16,004)	6,623
As at 1 January 2018	23,157	750	(1,996)	21,911
Loss for the period	–	–	(3,880)	(3,880)
Other comprehensive income	–	586	–	586
As at 31 May 2018 (unaudited)	23,157	1,336	(5,876)	18,617

Statement of Cash Flows

	For the period from 24 July 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018	For the five months ended 31 May 2018	2019
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
OPERATING ACTIVITIES				
Loss before tax	(1,996)	(9,278)	(3,880)	(4,433)
Adjustments for:				
Depreciation for property, plant and equipment	–	7	3	3
Depreciation for right-of-use asset	–	–	–	1,065
Finance cost	–	–	–	947
	–	7	3	2,015
Operating cash flows before movements in working capital	(1,996)	(9,271)	(3,877)	(2,418)
(Increase)/decease in other receivables	(1,858)	2,985	(577)	(2,657)
Increase in other payables	1,918	4,292	1,100	375
Net cash used in from operations	(1,936)	(1,994)	(3,354)	(4,700)
Income tax paid	–	–	–	–
NET CASH USED IN OPERATING ACTIVITIES	(1,936)	(1,994)	(3,354)	(4,700)
INVESTING ACTIVITIES				
Purchase of plant and equipment	(1,846)	(3,135)	(718)	(6,500)
NET CASH USED IN INVESTING ACTIVITIES	(1,846)	(3,135)	(718)	(6,500)
FINANCING ACTIVITIES				
Proceeds from other borrowings	2,650	3,783	1,053	6,750
Issue of share capital	6,065	–	–	4,780
NET CASH GENERATED FROM FINANCING ACTIVITIES	8,715	3,783	1,053	11,530
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,933	(1,346)	(3,019)	330
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	–	5,683	5,683	3,250
Effect of foreign exchange rate changes	750	(1,087)	587	(183)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	5,683	3,250	3,251	3,397

1. GENERAL INFORMATION

General information

Zhuhai Ruiye Bar Management Company Limited ("**the Target Company**") was incorporated in the People's Republic of China on 24 July 2017 as an exempted company with limited liability. The controlling shareholder is Chung Kin Lam. The principal activity of the Target Company is operation and management of clubbing business in Zhuhai.

The address of registered office and principal place of business of the Target Company are located at 珠海市香洲區漁灣路29號城建海韵城B區一層L1–24號商鋪.

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated, and the functional currency of the Target Company is Renminbi ("**RMB**").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below.

These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") which are issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Historical Financial Information has been prepared under the historical cost convention.

The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below.

(a) New and revised standards not yet adopted by the Target Company

The Target Company have not early applied the following new and revised HKFRS that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 3 (Amendments)	Definition of a business[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]

1 Effective for annual periods beginning on or after 1st January 2020.
2 Effective for annual periods beginning on or after 1st January 2021.
3 Effective for annual periods beginning on or after a date to be determined.

The directors of the Target Company anticipate that except as described below, the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Target Company.

(b) Changes in accounting policies upon adoption of new HKFRSs

This note explains the impact of the adoption of HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers and HKFRS 16 Leases. The directors of the Target Company consider that the changes in accounting policies due to the adoption of HKFRS 9 and HKFRS 15 do not have any material impacts on prior year financial statements.

(i) HKFRS 9 Financial Instruments — Impact of adoption

The adoption of HKFRS 9 from 1 January 2018 only resulted in changes in accounting policies. No adjustments were made to the amounts recognised in the financial statements consider there was no change in classification and measurement of the other receivables. In accordance with the transition provisions, the Target Company adopted HKFRS 9 retrospectively with no restatements on comparatives. The new accounting policies are set out below.

(ii) HKFRS 15 Revenue from Contracts with Customers — Impact of adoption

The adoption of HKFRS 15 from 1 January 2018 only resulted in changes in accounting policies. No adjustments were made to the amounts recognised in the financial statements as no revenue was recognised during the Relevant Periods. Therefore, there is no impact to the financial performance and position of the Target Company.

(iii) HKFRS 16 Leases — Impact of adoption

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

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

The Target Company has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the historical financial information presented for the period/year ended 31 December 2017 and 2018 has not been restated — i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Target Company determined at contract inception whether an arrangement was or contained a lease under HK(IFRIC) Interpretation 4 Determining Whether an Arrangement contains a Lease. The Target Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for the period of time in exchange for consideration.

As a lessee

As a lessee, the Target Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Target Company recognises right-of-use assets and lease liabilities for most leases — i.e. these leases are on-balance sheet.

The Target Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The carrying amounts of right-of-use assets are set out in note 13.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Target Company's incremental borrowing rate. Generally, the Target Company uses its incremental borrowing rate as the discount rate.

The carrying amounts of lease liabilities are set out in note 18.

Transition

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Target Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at its carrying amount as if the standard had been applied since the commencement date.

The Target Company used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

— Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings/accumulated losses, if relevant. The impact on transition is summarized below.

	HK$'000
Right-of-use assets	21,919
Leases liabilities	(27,377)
Accumulated losses	317
Other payable	5,141

When measuring lease liabilities for leases that were classified as operating leases, the Target Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is approximately 8.15%.

	As at 1 January 2019
	HK$'000
Operating lease commitment at 31 December 2018 as disclosed in the Historical Financial Information of the Target Company	41,868
Discounted using the incremental borrowing rate at 1 January 2019	(14,405)
Finance lease liabilities recognised as at 31 December 2018	27,463
Recognition exemption for leases of low-value assets	(86)
Lease liabilities recognised at 1 January 2019	27,377

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Target Company recognised right-of-use assets of approximately HK$20,785,000 and lease liabilities of approximately HK$28,225,000 as at 31 May 2019.

Also, in relation to those leases under HKFRS 16, the Target Company has recognised depreciation and finance costs, instead of operating lease expense. During the five months ended 31 May 2019, the Target Company recognized depreciation charges and finance costs from these leases of approximately HK$1,065,000 and HK$943,000 respectively.

2.2 Significant accounting policies

The Historical Financial Information 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 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.

The Historical Financial Information 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 Target Company 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 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.

Revenue from contracts with customers (upon application of HKFRS 15 on 1 January 2018)

Under HKFRS 15, the Company 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 Company's performance as the Company performs;
- the Company's performance creates and enhances an asset that the customer controls as the Company performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company 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 Company's right to consideration in exchange for goods or services that the Company 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 Company's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Company's obligation to transfer goods or services to a customer for which the Company 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 a presented on a net basis.

For contracts that contain more than one performance obligations, the Company 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 restaurant operations is recognised when the services have been provided to the customers.

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) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company 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.

Leasing (upon application of HKFRS 16 on 1 January 2019)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Company reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Target Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Company; and
- an estimate of costs to be incurred by the Target Company in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Target Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Target Company recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Target Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Target Company remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Leasing (prior to 1 January 2019)

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.

As a 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.

Foreign currency translation

In preparing the financial statements of each individual Company 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 financial statements, the assets and liabilities of the Company's foreign operations are translated into the presentation currency of the Company (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 employees of the target company which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to defined contribution retirement plans are charged as an expense when employees have rendered service entitling them to the contributions.

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 as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liabilities method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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 Company 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 Target Company 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.

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 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:

Furniture, fixtures and equipment	3–10 years

Impairment on tangible assets and intangible assets other than goodwill

At the end of each reporting period, the Target Company 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 Target Company 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.

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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Target Company 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.

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

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 Target Company 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 Target Company 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.

Impairment of financial assets (upon application of HKFRS 9)

The Target Company recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including other receivables and cash and bank balances). 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 Target Company'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 Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company 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 Target Company 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 Target Company 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 Target Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company 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 Target Company 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 Target Company, in full.

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 120 days past due unless the Target Company 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 Target Company 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 Target Company'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.

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 Target Company in accordance with the contract and the cash flows that the Target Company 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 Target Company's other receivables 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.

The Target Company 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 instruments (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 company 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 Target Company's financial assets represent loans and receivable. 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.

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 other receivables 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.

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; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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 Company'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 liabilities and equity instruments

Classification as debt or 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 instruments

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 Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including other payables, loan payables) 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 Target Company 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 substantially all the risks and rewards of ownership of the asset to another entity. If the Target Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in 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.

On derecognition of a financial asset other than in its entirety, the Target Company allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired less bank overdrafts, which are repayable on demand and form an integral party of the Target Company's cash management.

Related parties transactions

A party is considered to be related to the Target Company if:

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

(a) has control or joint control over, the Target Company;

(b) has significant influence over the Target Company; or

(c) is a member of the key management personnel of the Target Company or of a parent of the Target Company.

(ii) An entity is related to the Target Company if any of the following conditions applies:

(a) the entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary 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 Target Company or an entity related to the Target Company; If the Target Company is itself such a plan, the sponsoring employees are also related to the Target Company;

(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 Target Company or to the parent of the Target Company.

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) 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 company and a related party, regardless of whether price is charged.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, the directors of the Target Company 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 plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Target Company 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 Target Company with similar assets that are used in similar way. The Target Company 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 non-strategic assets that have been abandoned or sold.

(b) Impairment loss for non-financial assets

The Target Company 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.

(c) Estimated impairment of other receivables

The Target Company uses provision matrix to calculate ECL for the other 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 Target Company'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, other 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 Target Company's other receivables are disclosed in Notes 4 and 13.

4. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		As at 31 May
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables			
Other receivables and deposits	18,950	15,965	11,945
Cash and cash equivalents	5,683	3,250	3,397
	24,633	19,215	15,342
Financial liabilities			
At amortised cost			
Other payables	1,918	6,210	1,464
Loan payables	2,650	6,433	13,183
Lease liabilities	–	–	28,225
	4,568	12,643	42,643

(b) Financial risk management objectives and policies

The directors of the Target Company monitor and manage the financial risks relating to the operations of the Target Company 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 Target Company's major financial instruments include other receivables, cash and cash equivalents, other payables, loan payable and leases liability. 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.

Credit risk

The credit risk of the Target Company mainly arises from other receivables and cash deposited at banks. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to financial assets.

In determining the expected credit loss for other financial assets including other receivables and deposits, the directors of the Target Company have taken into account the historical default experience in estimating the probability of default of each of the other financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. For the purpose of impairment assessment, the ECL of these financial assets considered to be immaterial as the counterparties to these financial assets have a high credit quality.

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 and 31 May 2019.

Currency risk

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

Liquidity risk

The following tables detail the Target Company'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 Target Company can be required to pay. The tables include both interest and principle cash flows.

	As at 31 May 2019						
	Weighted average effective interest rate	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Other payables	–	1,464	–	–	–	1,464	1,464
Lease liabilities	8.15	2,848	3,418	12,294	23,082	41,642	28,225
Loan payables	1.50	4,137	9,230	–	–	13,367	13,183
		8,449	12,648	12,294	23,082	56,473	42,872

	As at 31 December 2018						
	Weighted average effective interest rate	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Other payables	–	6,210	–	–	–	6,210	6,210
Loan payables	1.9	3,007	–	3,631	–	6,638	6,433
		9,217	–	3,631	–	12,848	12,643

	Weighted average effective interest rate	As at 31 December 2017 On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Other payables	–	1,918	–	–	–	1,918	1,918
Loan payables	–	–	–	2,650	–	2,650	2,650
		1,918	–	2,650	–	4,568	4,568

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

For financial reporting purpose, fair value measurement 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 input to the fair value measurements in its entirety.

The table below gives the information about how the fair value of these financial assets and financial liabilities that are measured at fair value on a recurring basis are determined (in particular, the valuation technique(s) and inputs used). The difference level are defined as follows:

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There were no transfer between level 1, 2 and 3 during the Relevant Periods.

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Target Company's statement of financial position approximate of their fair values.

Capital risk management

The primary objective of the Target Company's capital management is to safeguard the Target Company'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 Target Company manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Company 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 Target Company monitors capital to ensure that the Target Company 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 Target Company overall strategy remains unchanged during the Relevant Periods.

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

	31 December		31 May
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Total liabilities	4,568	12,643	42,872
Total assets	26,479	24,189	49,495
Gearing ratio	17.3%	52.3%	86.6%

5. REVENUE AND SEGMENT INFORMATION

The Target Company did not generate any revenue during the Relevant Periods.

6. FINANCE COST

	For the period from 24 July 2017 (date of incorporation) to 31 December	Year ended 31 December	Five months ended 31 May	
	2017	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interest expenses on other borrowing	–	–	–	4
Interest expenses on lease liabilities	–	–	–	943
	–	–	–	947

7. LOSS BEFORE TAXATION

	For the period from 24 July 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018	Five months ended 31 May 2018	2019
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Loss before taxation has been arrived at after charging:				
Staff costs:				
— Director's emoluments (included retirement scheme contributions) *(Note 9)*	–	–	–	–
— Salaries and other benefits	714	2,635	1,141	2,060
— Retirement benefits scheme contributions	41	201	89	129
	755	2,836	1,230	2,189
Auditors' remuneration	–	–	–	–
Operating lease charges in respect of leased premises	910	4,293	1,934	21
Depreciation of plant and equipment	–	7	3	3
Depreciation of right-of-use-asset	–	–	–	1,065

8. TAXATION

	For the period from 24 July 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018	Five months ended 31 May 2018	2019
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Income tax expense	–	–	–	–

The Target Company is subject to PRC Enterprise Income Tax at 25%. No provision for the PRC Enterprise Income Tax has been made as the Target Company had no assessable profits during the Relevant Periods.

The taxation can be reconciled to the loss before taxation per the statement of profit or loss and other comprehensive income as follows:

	For the period from 24 July 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018	Five months ended 31 May 2018	Five months ended 31 May 2019
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Loss before taxation	(1,996)	(9,278)	(3,880)	(4,433)
Tax at the applicable income tax rates	499	2,320	970	1,108
Tax effect of expenses not deductible for tax purpose	(499)	(2,320)	(970)	(1,108)
	–	–	–	–

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

The amounts of emoluments paid or payable to the directors of the Target Company during the Relevant Period are as follows:

	For the period from 24 July 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018	Five months ended 31 May 2018	Five months ended 31 May 2019
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Directors' fees	–	–	–	–
Salaries and other benefits	714	2,635	–	2,060
Retirement schemes contributions	41	201	–	129
	755	2,836	–	2,189

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and chief executive of the Target Company for the Relevant Period are as follows:

	Fees *HK$'000*	Salaries, allowances, and benefits in kind *HK$'000*	Retirement scheme contribution *HK$'000*	Total *HK$'000*
For the period ended 31 May 2019				
Executive directors:				
Mr. Chung Kin Lam	–	–	–	–
鄭景安	–	–	–	–
李奇峰	–	–	–	–
周宏智	–	–	–	–
伍志良	–	–	–	–
	–	–	–	–
For the period ended 31 May 2018				
Executive directors:				
Mr. Chung Kin Lam	–	–	–	–
鄭景安	–	–	–	–
李奇峰	–	–	–	–
周宏智	–	–	–	–
伍志良	–	–	–	–
	–	–	–	–
For the year ended 31 December 2018				
Executive directors:				
Mr. Chung Kin Lam	–	–	–	–
鄭景安	–	–	–	–
李奇峰	–	–	–	–
周宏智	–	–	–	–
伍志良	–	–	–	–
	–	–	–	–
For the year ended 31 December 2017				
Executive directors:				
Mr. Chung Kin Lam	–	–	–	–
鄭景安	–	–	–	–
李奇峰	–	–	–	–
周宏智	–	–	–	–
伍志良	–	–	–	–
	–	–	–	–

During the Relevant Periods, there was no arrangement under which a director has waived or agreed to waive any emolument.

10. DIVIDENDS

The directors of Target Company do not recommend the payment of any dividend in respect of the Relevant Periods.

11. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusions is not considered meaningful.

12. PLANT AND EQUIPMENT

	Construction-in-progress *HK$'000*	Furniture and fixtures *HK$'000*	Total *HK$'000*
Cost			
As at 24 July 2017	–	–	–
Additions	1,828	18	1,846
As at 31 December 2017 and 1 January 2018	1,828	18	1,846
Additions	3,127	8	3,135
As at 31 December 2018 and 1 January 2019	4,955	26	4,981
Additions	6,449	51	6,500
As at 31 May 2019	11,404	77	11,481
Accumulated depreciation			
As at 24 July 2017	–	–	–
Charge for the period	–	–	–
As at 31 December 2017 and 1 January 2018	–	–	–
Charge for the year	–	7	7
As at 31 December 2018 and 1 January 2019	–	7	7
Charge for the period	–	3	3
As at 31 May 2019	–	10	10
Carrying amounts			
As at 31 May 2019	11,404	67	11,471
As at 31 December 2018	4,955	19	4,974
As at 31 December 2017	1,828	18	1,846

13. RIGHT-OF-USE ASSETS

The Target Company does not have the option to purchase the right-of-use assets for a nominal amount at the end of the lease terms.

	Buildings
	HK$'000
Cost	
As at 1 January 2019 upon initial application of HKFRS 16	21,919
Additions	–
As at 31 May 2019	21,919
Accumulated depreciation	
Charge for the period	1,065
Exchange realignment	69
As at 31 May 2019	1,324
Carrying amounts	
As at 31 May 2019	20,785

14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 31 December		**As at 31 May**
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Other receivables	18,351	15,051	11,034
Less: allowance for credit losses	–	–	–
	18,351	15,051	11,034
Prepayment	–	–	1,897
Deposit	599	914	911
	18,950	15,965	13,842

As at 31 December 2017 and 2018 and 31 May 2019, other receivables mainly consist of amount due from shareholders of approximately HK$17,784,000, HK$14,456,000 and HK$9,653,000 respectively.

15. CASH AND CASH EQUIVALENTS

	As at 31 December		As at 31 May
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
RMB	5,683	3,250	3,397

Cash and cash equivalents carry interest at 0.125% to 0.5% market rates per annum for five months ended 31 May 2019 (2018: 0.01% to 0.3%; from 24 July 2017 (date of incorporation) to 31 December 2017 0.01% to 0.3%).

16. OTHER PAYABLES

	As at 31 December		As at 31 May
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Other payables	1,918	6,210	1,464

17. LOAN PAYABLES

	As at 31 December		As at 31 May
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Current — unsecured	–	3,007	4,137
Non-current — unsecured	2,650	3,426	9,046
Loan payables	2,650	6,433	13,183

The range of interest rates per annum on the Target Company's loan payables were as follows:

	As at 31 December		As at 31 May
	2017	2018	2019
Loan payables	0%	0% to 5%	0% to 5%

18. LEASE LIABILITIES

	As at 31 May 2019
	HK$'000
Analysed as:	
Current	934
Non-current	27,291
	28,225
Minimum lease payments due:	
Within one year	2,848
More than one year but not later than two years	3,418
More than two years but not later than five years	12,294
More than five years	23,082
	41,642
Less: Future finance charges	(13,417)
Present value of lease liabilities	28,225
Maturity analysis:	
Within one year	934
More than one year but not later than two years	1,207
More than two years but not later than five years	6,429
More than five years	19,655
	28,225

At 31 December 2017, 2018 and 31 May 2019, the Group leases various as its offices and lease liabilities are measured at the present value of the lease payments that are not yet paid. The lease terms range from two to five years. These leases have no terms of renewal clauses. Purchase options are included in certain lease agreements entered by the Group in respect of motor vehicles. No arrangements have been entered into for contingent rental payments on these leased assets.

During the relevant periods, no expense relating to short term leases were recognised.

The total cash outflows for leases amounted to HK$Nil for the year ended 31 May 2019.

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

19. SHARE CAPITAL

Movements of the share capital of the Target Company are as follows:

	As at 31 December 2017	As at 31 December 2018	As at 31 May 2019
	HK$'000	*HK$'000*	*HK$'000*
Registered capital:			
At beginning of the year/period and at end of the year/period	23,157	23,157	23,157
Paid-in capital:			
At beginning of the year/period and at end of the year/period	23,157	23,157	23,157

20. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of each reporting date, the total future minimum lease payments payable by the Target Company under non-cancellable operating leases are as follows:

	As at 31 December 2017	As at 31 December 2018	As at 31 May 2019
	HK$'000	*HK$'000*	*HK$'000*
Within one year	50	1,477	48
In the second to fifth years inclusive	12,693	15,140	18
Over fifth years	31,198	25,251	–
	43,941	41,868	66

The Target Company is the lessee in respect of premises under operating leases. The leases typically run for an initial period of one to three years. The leases do not include contingent rentals.

21. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances and transactions detailed elsewhere in the Historical Financial Information, the Target Company had the following related party transactions during the Relevant Periods.

In addition to the information disclosed elsewhere in these Historical Financial Information, the following transactions took place between the Target Company and related parties at terms agreed between the parties:

(a) Compensation paid to key management personnel of the Target Company represented are disclosed in Note 9.

(b) For the period from 24 July 2017 (date of incorporation) to 31 December 2017 and year ended 31 December 2018, and five months ended 31 May 2018 and 2019, the Target Company had the following transactions with related parties:

Name of related party	Nature	For the period from 24 July 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018	Five months ended 31 May 2018	2019
		HK\$'000	*HK\$'000*	*HK\$'000* (unaudited)	*HK\$'000*
Mr. Chung Kin Lam *(note (a))*	Loan receivables	167	160	–	160
Mr. Chung Kin Lam *(note (a))*	Rental income	–	–	–	48
Zhuhai Luk Hing Cultural Development Company Limited *(note (b))*	Loan payables	492	692	–	689
Zhuhai Wei Chong Culture Broadcasting Company Limited *(note (b))*	Loan payables	1,200	1,383	–	1,379

Notes:

(a) Mr. Chung Kin Lam is one of the directors of Zhuhai Ruiye Bar Management Company Limited.

(b) Zhuhai Ruiye Bar Management Company Limited is subsidiary of Zhuhai Luk Hing Cultural Development Company Limited and Zhuhai Wei Chong Culture Broadcasting Company Limited.

22. RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

	Loan payable *HK$'000*	Total *HK$'000*
As at 24 July 2017 (Date of incorporation)	–	–
Proceeds from borrowings	2,650	2,650
Total changes from financing cash flows	2,650	2,650
Accrued Interest	–	–
Interest paid	–	–
Total other changes	–	–
As at 31 December 2017 and 1 January 2018	2,650	2,650
Proceeds from borrowings	3,783	3,783
Total changes from financing cash flows	3,783	3,783
Accrued Interest	–	–
Interest paid	–	–
Total other changes	–	–
As at 31 December 2018 and 1 January 2019	6,433	6,433
Proceeds from borrowings	6,750	6,750
Total changes from financing cash flows	6,750	6,750
Accrued Interest	–	–
Interest paid	–	–
Total other changes	–	–
As at 31 May 2019	13,183	13,183
As at 1 January 2018	2,650	2,650
Proceeds from borrowings	1,053	1,053
Total changes from financing cash flows	1,053	1,053
Accrued Interest	–	–
Interest paid	–	–
Total other changes	–	–
As at 31 May 2018	3,703	3,703

23. SUBSEQUENT EVENTS

Subsequent to the end of the reporting period, the Target Company had no significant events occurred.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(I) Introduction

The following unaudited pro forma financial information of the Group, being Luk Hing Entertainment Group Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") comprising the unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2019, has been prepared by the directors of the Company in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of illustrating the effect of the additional investment in the Zhuhai Ruiye Bar Management Company Limited (the "**Target Company**") by the Group (the "**Additional Investment**"), to provide information about how the Additional Investment might have affected the Group's financial position as at 30 June 2019, as if the Proposed Additional Investment had taken place at 30 June 2019.

The unaudited pro forma financial information is prepared to provide information on the Group as a result of the completion of the Additional Investment on the basis of notes set out below for illustrating the effect of the Additional Investment, as if the Additional Investment had taken place on 30 June 2019:

The unaudited pro forma financial information is prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the financial position of the Group would have been upon completion of the Additional Investment as at 30 June 2019 or on any future dates.

The unaudited pro forma statement of financial position as at 30 June 2019 is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as extracted from the unaudited consolidated financial statements set out in the latest published Interim Report of the Company for the period ended 30 June 2019, after making pro forma adjustments to the Additional Investment, as if the Additional Investment had been completed on 30 June 2019.

(II) Unaudited Pro Forma Financial Information of the Enlarged Group

	The Group as at 30 June 2019	Unaudited Pro Forma Adjustments		The Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	unaudited			unaudited
	(note 1)	*(note 2)*	*(note 3)*	
NON-CURRENT ASSETS				
Plant and equipment	37,619	–	–	37,619
Goodwill	6,023	–	–	6,023
Intangible assets	779	–	–	779
Financial assets at fair value through other comprehensive income ("**Financial assets at FVTOCI**")	777	–	–	777
Deposits	43,578	–	–	43,578
Right-of-use assets	7,557	–	–	7,557
	96,333	–	–	96,333
CURRENT ASSETS				
Inventories	6,097	–	–	6,097
Account and other receivable	52,302	–	–	52,302
Loan receivables	5,186	–	–	5,186
Amount due from non-controlling interests	3,410	–	–	3,410
Income tax recoverable	1,314	–	–	1,314
Cash and cash equivalents	29,608	18,167	(646)	47,129
	97,917	18,167	(646)	115,438
CURRENT LIABILITIES				
Account and other payables	37,783	–	–	37,783
Bank overdraft	1,652	–	–	1,652
Lease liabilities	12,575	–	–	12,575
Amount due from non-controlling interests	3,424	–	–	3,424
Income tax payables	975	–	–	975
	56,409	–	–	56,409
NET CURRENT ASSETS/(LIABILITIES)	41,508	18,167	(646)	59,029
TOTAL ASSETS LESS CURRENT LIABILITIES	137,841	18,167	(646)	155,362

	The Group as at 30 June 2019	Unaudited Pro Forma Adjustments		The Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	unaudited			unaudited
	(note 1)	*(note 2)*	*(note 3)*	
NON-CURRENT LIABILITIES				
Lease liabilities	40,445	–	–	40,445
Loan from investors	9,080	–	–	9,080
Promissory note	–	17,398	–	17,398
Amounts due to non-controlling interests	4,112	–	–	4,112
Provision for reinstatement cost	715	–	–	715
	54,352	17,398	–	71,750
NET ASSETS	83,489	769	(646)	83,612

Notes:

(1) The amounts were extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as set out in the published interim report of the Company for the period ended 30 June 2019.

(2) On 3 July 2019, the Group entered into an agreement (the "**the 1st Tranche Note Purchases Agreements**") with each of "Investor A", "Investor B", "Investor C", "Investor D", "Investor E" and "Investor F" (collectively "**the 1st Tranche Note Investors**") for purchase of the 1st Tranche Convertible Promissory Notes in aggregate principal amount of approximately RMB16.0 million (equivalent to approximately HK$18,167,000).

The proceeds are intended to be used for the additional investment in the Target Company.

The adjustment represent the additional investment to the Target Company of approximately HK$18,167,000 and the issuance of 1st Tranche Convertible Promissory Notes. For the purpose of this pro forma financial information, the present value of the 1st Tranche Convertible Promissory Notes to be issued is estimated as approximately HK$17,398,000. The estimated present value of the 1st Tranche Convertible Promissory Notes to be issued is calculated at the discount rate of 9.98%.

(3) The adjustment represents the expenditure incurred directly in connection with the Additional Investment including financial advisor fees, legal fees, printing costs, reporting accountants' fee, and other related expenses to be borne by the Group of approximately HK$646,000.

(4) Except for the Additional Investment and provision of estimated amount paid for legal and professional fee, no adjustment have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

HLB 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 Directors of Luk Hing Entertainment Group Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Luk Hing Entertainment Group Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the" **Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2019, and related notes as set out on pages III-1 to III-6 of the circular issued by the Company dated 22 August 2019 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-4 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the additional investment in Zhuhai Ruiye Bar Management Company Limited (the "**Additional Investment**") on the Group's financial position as at 30 June 2019 as if the Additional Investment had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's Interim Report for the period ended 30 June 2019.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors of the Group have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Additional Investment at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Kwok Tsz Chun
Practicing Certificate Number: P06901

Hong Kong, 22 August 2019

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of The Company or any Associated Corporation

As at the Latest Practicable Date, 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%

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 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%
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 the Latest Practicable Date, 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 the Latest Practicable Date, 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%

Name of shareholder	Nature of interest	Number and class of securities[1]	Approximate percentage of shareholding interest immediately after the Listing
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%

Name of shareholder	Nature of interest	Number and class of securities[1]	Approximate percentage of shareholding interest immediately after the Listing
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. Choi Siu Kit is interested.

(7) Ms. Lee Wan is the spouse of Mr. Au Wai Pong Eric. By virtue of the SFO, Ms. Lee Wan is deemed to be interested in 60.75% of the issued share capital of the Company in which Mr. Au Wai Pong Eric is interested.

(8) Ms. 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 the Latest Practicable Date, 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.

3. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to entered into any service contracts with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation).

5. COMPETING INTERESTS

Interest in a competing business

The controlling shareholders of the Company (the "**Controlling Shareholders**") are interested in certain restaurant businesses in Macau (the "**Retained Macau Restaurant Business**"). Compared to the Group's current clubbing business in Macau, the Retained Macau Restaurant Business has different industry nature, opening business hours and target customers. Accordingly, our Directors are of the view that the Retained Macau Restaurant Business are clearly delineated from the Group's businesses and will not compete (either directly or indirectly) or are not likely to compete with the Group's businesses.

Mr. Choi 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 as at the Latest Practicable Date:

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.

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

Name of entity	**Nature of interests**
Best Shine Entertainment Limited	Director and interest in approximately 92.5% of its issued share capital
Best Shine (China) Entertainment Limited	Director and interest in approximately 99.9% of its issued share capital
Sky Treasure Entertainment Limited	Director and interest in approximately 83.3% of its issued share capital
J-Pot Limited	Interest in approximately 18.5% of its issued share capital

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

Saved as disclosed, as at the Latest Practicable Date, 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.

6. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENT

Save for the lease agreement entered into by the Group with Zone One (CS) Limited, which 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 as disclosed in the Annual Report 2018, as at the Latest Practicable Date, none of the Directors or proposed Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2018, being the date to which the latest published and audited consolidated financial statements of the Company were made up.

Save for the transactions contemplated hereunder and transactions which were disclosed pursuant to the Listing Rules, there was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date of which any Director is materially interested and which is significant in relation to the business of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(i) Three convertible loan agreements dated 10 June 2019 entered into between Luk Hing Capital (as borrower), the Company (as guarantor) and three lenders in the aggregate principal amount of RMB8.0 million;

(ii) Subscription agreement dated 10 June 2019 entered into between Luk Hing Capital (as subscriber) and Oasis Capital (as issuer) for subscription of 9,080,000 shares of Oasis Capital in the sum of RMB8.0 million;

(iii) Six Note Purchase Agreements dated 3 July 2019 entered into between the Company (as issuer) and six investors for subscription of convertible promissory notes in the aggregate principal of RMB16.0 million; and

(iv) Six Convertible Promissory Notes entered into between the Company (as issuer) and six investors in the aggregate principal of RMB16.0 million.

8. EXPERTS AND CONSENTS

The following is the qualification of the experts or professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

9. GENERAL

(a) The registered office of the Company is situated at P.O. Box 1350, Clifton House,75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

(b) The head office and principal place of business in Hong Kong is Room 1505, 15/F., Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong.

(c) As at the date of this circular, the Board comprises three executive Directors, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, and Mr. Yeung Chi Shing; three non-executive Directors, Mr. Au Wai Pong Eric, Mr. Au Ka Wai and Ms. Poon Kam Yee Odilia; and three independent non-executive Directors, Mr. Lam Wai Chin Raymond, Mr. Chan Ting Bond Michael and Mr. Tse Kar Ho Simon.

(d) The company secretary is Mr. Wong Man Lung Clement. Mr. Wong is a solicitor as defined in the Legal Practitioners Ordinance in Hong Kong.

(e) The compliance officer of the Company is Mr. Choi Siu Kit, who is an executive Director of the Company.

(f) The audit committee of the Company (the "**Audit Committee**") is chaired by our independent non-executive Director, Mr. Chan Ting Bond Michael, 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, among others, to assist the Board in providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management systems and to oversee the audit process. The biography of the members of Audit Committee are set out below:

(i) 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 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.

(ii) 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 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.

(iii) Mr. Au Wai Pong Eric (區偉邦), 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. Au is a member of each of the audit committee and remuneration committee of the Board. Mr. 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. 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. 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. 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.

(g) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(h) The English text of this circular shall prevail over their respective texts in case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (except public holidays) at 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 from the date of this circular up to and including 5 September 2019 (both days inclusive):

(a) the memorandum and articles of association of the Company;

(b) the annual report of the Company for the years ended 31 December 2017 and 2018 respectively;

(c) the accountants' report on Zhuhai JV Company, the text of which is set out in Appendix II to this circular;

(d) the letter on unaudited pro forma financial information, the text of which is set out in Appendix III to this circular;

(e) the consent letter referred to in the paragraph under the heading "Experts and Consents" in this Appendix to this circular;

(f) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this Appendix to this circular; and

(g) this circular.