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LUK HING ENTERTAINMENT GROUP

Third Quarterly Report 2022

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

Stock Code: 8052

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



THIRD QUARTERLY RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three-month and nine-month periods ended 30 September 2022, together with the unaudited comparative figures for the respective corresponding period in 2021, as follows:

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

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	3	17,176	37,762	38,371	127,553
Other income and gain	4	469	740	2,184	6,246
Cost of inventories sold		(5,152)	(10,826)	(11,998)	(32,765)
Staff costs		(8,381)	(19,774)	(23,450)	(67,972)
Property rentals and related expenses		(3,619)	(2,405)	(7,425)	(6,813)
Advertising and marketing expenses		(13)	(523)	(130)	(1,543)
Other operating expenses		(9,095)	(8,005)	(18,650)	(24,360)
Depreciation and amortisation		(6,872)	(8,638)	(19,932)	(25,987)
Impairment losses under expected credit loss model, net of reversal		79	–	120	2
Loss on cessation of business		(11,222)	–	(11,222)	–
Share of losses of Joint ventures		(107)	–	(776)	–
Finance costs	7	(1,403)	(2,110)	(4,476)	(6,346)
Loss before taxation		(28,140)	(13,779)	(57,384)	(31,985)
Taxation	5	–	(17)	5	(23)

Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
	2022	2021	2022	2021
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Loss for the period	(28,140)	(13,796)	(57,379)	(32,008)
Other comprehensive income:				
Exchange difference on translating of financial statements of overseas subsidiaries	1,794	277	1,642	255
Total comprehensive loss for the period	(26,346)	(13,519)	(55,737)	(31,753)
Loss for the period attributable to:				
Owners of the Company	(20,714)	(10,882)	(41,746)	(26,735)
Non-controlling interests	(7,426)	(2,914)	(15,633)	(5,273)
	(28,140)	(13,796)	(57,379)	(32,008)
Other comprehensive income for the period attributable to:				
Owners of the Company	1,211	200	1,473	105
Non-controlling interests	583	77	169	150
	1,794	277	1,642	255
Total comprehensive loss for the period attributable to:				
Owners of the Company	(19,503)	(10,682)	(40,273)	(26,630)
Non-controlling interests	(6,843)	(2,837)	(15,464)	(5,123)
	(26,346)	(13,519)	(55,737)	(31,753)
Loss per share (HK cents)				
– Basic	6	(0.90)	(1.84)	(1.31)
– Diluted	6	(0.90)	(1.84)	(1.22)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2022

	Attributable to owners of the Company							Sub-total HK\$'000 (Unaudited)	Attributable to non- controlling interests HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Share-based compensation losses HK\$'000 (Unaudited)	Legal reserve HK\$'000 (Unaudited) (Note)	Exchange reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Other reserve HK\$'000 (Unaudited)			
As at 1 January 2021	18,000	66,235	896	12	543	(68,363)	(863)	16,460	(12,247)	4,213
Loss for the period	-	-	-	-	-	(26,735)	-	(26,735)	(5,273)	(32,008)
Other comprehensive income for the Period	-	-	-	-	105	-	-	105	150	255
Ordinary shares issued	3,600	8,280	-	-	-	-	-	11,880	-	11,880
Transaction costs attributable to issue of new shares	-	(129)	-	-	-	-	-	(129)	-	(129)
Equity-settled share option arrangement	-	-	2,576	-	-	-	-	2,576	-	2,576
As at 30 September 2021	21,600	74,386	3,472	12	648	(95,098)	(863)	4,157	(17,370)	(13,213)
As at 1 January 2022	22,544	77,839	1,648	12	251	(140,377)	(685)	(38,768)	(21,902)	(60,670)
Loss for the period	-	-	-	-	-	(41,746)	-	(41,746)	(15,633)	(57,379)
Other comprehensive income for the Period	-	-	-	-	1,473	-	-	1,473	169	1,642
Lapsed of share options	-	-	(246)	-	-	246	-	-	-	-
Exercise of share options	360	1,330	(646)	-	-	-	-	1,044	-	1,044
As at 30 September 2022	22,904	79,169	756	12	1,724	(181,877)	(685)	(77,997)	(37,366)	(115,363)

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Luk Hing Entertainment Group Holdings Limited (“the Company”) was incorporated in Cayman Islands on 30 November 2015 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 11 November 2016, the Company’s shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1180, Cayman Islands and the principal place of business in Hong Kong is located at Room 1505, 15/F., Shun Tak Centre West Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong. The Company is an investment holding company.

The directors of the Company regard Welmen Investment Co. Ltd, a company incorporated in the British Virgin Islands as the ultimate holding company.

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

The functional currency of the subsidiaries established in Macau is Macau Pataca (“MOP”), the functional currency of the subsidiaries established in the People’s Republic of China (the “PRC”) is Renminbi (“RMB”) and the functional currency of the Company and Hong Kong operating subsidiaries is Hong Kong dollars (HK\$).

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

The condensed consolidated quarterly financial information of the Group has not been audited. The unaudited condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2022 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and in accordance with the applicable disclosure requirements of the GEM Listing Rules.

(b) Basis of Measurement and Going Concern Assumption

The unaudited condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2022 do not include all the information and disclosure required in the annual financial statements and should be read in conjunction with the audited annual financial statements included in the annual report of the Company dated 24 March 2022. The accounting policies adopted are consistent with those applied in the Group’s audited annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), except the new and revised HKFRSs, which are effective for the financial year beginning from 1 January 2022. The adoption of these new and revised HKFRSs has not had material impact on the unaudited condensed consolidated quarterly financial statements of the Group for the nine-month period ended 30 September 2022. The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective.

As at 30 September 2022, the Group had net current liabilities and net liabilities of approximately HK\$109,419,000 and HK\$115,365,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and consequently, the Group may not be able to realise its assets and discharge its liabilities in the normal course of its business.

The directors of the Company have been taking steps to improve the liquidity position of the Group. These steps include:

- (i) explore fund-raising activities such as rights issue and/or share subscription or placing to meet its repayment obligations;
- (ii) negotiate with banks for renewing banking facilities. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the banks to withdraw their bank facilities or require early repayment of the loans, and the directors believe that the existing bank facilities will be renewed when their current terms expire given the good track records and relationships the Group has with the banks;
- (iii) implement stronger measures aiming at improving the working capital and cash flows of the Group, including closely monitoring incurrence of other operating expenses;
- (iv) negotiate with the landlords of the properties leased by the Group for rent concessions;
- (v) apply for COVID-19 related government subsidies applicable to its restaurant business in Hong Kong such as salary subsidies which will reduce the operation costs of the Group to a certain extent;
- (vi) continue to apply for and negotiate for extension of the government 100% guarantee loan to support the rental payable of restaurant under the lease liabilities; and
- (vii) the convertible promissory notes of HK\$18,200,920 and the convertible loan of HK\$9,080,000 were due on 23 August 2022 respectively, the Company is negotiating with the convertible promissory notes holders to extend the repayment date of the convertible promissory notes.

Provided that the above-mentioned plans and measures can be successfully achieved and improve the liquidity position of the Group, the Directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the third quarterly financial statements have been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments have not been reflected in the third quarterly financial statements.

3. REVENUE

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

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue from contracts with customers:				
Recognised at a point in time				
Sales of food, and other products	15,532	17,186	33,811	44,393
Sales of beverage	1,560	20,366	4,304	81,872
Sponsorship income	-	-	-	452
Entrance fees income	-	77	-	218
Others (Note)	-	20	-	284
	17,092	37,649	38,115	127,219
Revenue from other sources:				
Loan interest income	84	113	256	334
	17,176	37,762	38,371	127,553

Note: Others mainly represent events rental income and cloakroom income.

4. OTHER INCOME AND GAIN

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Net foreign exchange gain/(loss)	(620)	(110)	(1,040)	657
Consultancy and management fee income	–	255	146	771
COVID-19-related rental concession	630	–	630	1,365
Government grants (note (a))	447	–	2,319	820
Gain on disposal of plant and equipments	–	–	61	–
Bad debt recovery	–	–	–	857
Others (note (b))	12	595	68	1,776
	469	740	2,184	6,246

Notes:

- (a) For the nine-month period ended 30 September 2022, government grants of HK\$2,319,000 (2021: HK\$820,000) in respect of COVID-19-related subsidies, of which of HK\$1,200,000 (2021: HK\$800,000) relates to Catering Business Subsidy Scheme, Employment Support Scheme of approximately HK\$1,119,000 (2021: Nil) and other subsidies of Nil (2021: HK\$20,000) under the Anti-epidemic Fund provided by the Hong Kong government.
- (b) Others mainly included the tips income.

5. TAXATION

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Income tax expenses				
– PRC Enterprise Income Tax	–	17	(5)	23

No provision for Hong Kong profits tax is made since the Hong Kong subsidiary has no estimated assessable profit for the three-month and nine-month periods ended 30 September 2022 and 2021, respectively.

6. LOSS PER SHARE

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss for the purpose of basic and diluted losses per share	(20,714)	(10,882)	(41,746)	(26,735)
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	2,290,400	2,160,000	2,266,796	2,041,319
Effect of dilutive potential ordinary shares:				
– Share option (Note)	–	144,000	–	144,000
Weighted average number of ordinary shares for the purpose of diluted loss per share	2,290,400	2,304,000	2,266,796	2,185,319

Note: For the three-month and nine-month periods ended 30 September 2022, diluted loss per share is the same as basic loss per share as there were no potential dilutive ordinary shares in issue.

The diluted loss per share for the three-month and nine-month periods ended 30 September 2021 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

7. FINANCE COSTS

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on convertible promissory notes	355	516	1,393	1,530
Interest on convertible loans	138	205	542	609
Interest on bank loans	132	182	424	545
Interest on bank overdrafts	–	38	–	111
Interest on lease liabilities	761	1,161	2,067	3,511
Others	17	8	50	40
	1,403	2,110	4,476	6,346

8. DIVIDEND

The Board does not recommend the payment of an interim dividend by the Company for the nine-month period ended 30 September 2022.

9. LITIGATION AND CONTINGENT LIABILITIES

- (a) On 19 October 2021, the Company's subsidiary, Luk Hing Investment Limited ("Luk Hing Investment") received a summons issued by COD Resorts Limited ("COD") (as plaintiff) against Luk Hing Investment (as defendant) and filed with Court of the Macau to such civil proceeding. COD alleged that Luk Hing Investment breached the contractual obligations of the Operating Agreement and Supplemental Agreement (the "Agreements") due to default of payment of the rental expenses and contingent rental expense during the year ended 31 December 2021. COD further understands that Luk Hing Investment, by failing to comply with its contractual obligations on a timely manner, the termination of the Agreements shall be deemed valid and effective and requested Luk Hing Investment to pay all the amounts claimed under the Agreements of approximately HK\$85,982,000 (equivalent to approximately MOP88,562,000) including the outstanding rental expenses, the rental expenses for the remaining contract terms, interest regards to the outstanding rental expenses, etc..

On 12 January 2022, an objection was filed by Luk Hing Investment to the Court to deny the amounts requested by COD as their request were onerous, excessive, disproportional and unreasonable. In addition, due to the termination of the Agreements, Luk Hing Investment filed a counterclaim in relation to the equipment held by Luk Hing Investment, that remained unrecovered in the former premises of Club Cubic Macau, Luk Hing Investment objected via credit offset and a counterclaim of the total amounts approximately HK\$5,805,000 (equivalent to approximately MOP5,979,000).

On 7 March 2022, COD filed the reply to objection of Luk Hing Investment to the Court. COD objected to the claim of credit offset and counterclaim of Luk Hing Investment in respect of the equipment, which remains unrecovered in the former Club Cubic Macau, claiming that such equipment was accounted as a cost of Luk Hing Investment, but immediately incorporated into the Club Cubic Macau, becoming COD the owner and proprietor of the said. COD objects to the arguments made by Luk Hing Investment and maintaining the amount as requested.

As of the reporting date, the liability of Luk Hing Investment in respect of the summons cannot be reliably measured as the lawsuit is still in its initial stages. As at the date of approval of this report, save as disclosed in the above, there was no update on the litigations.

- (b) On 11 October 2021, Zhuhai Ruiye Bar Management Company Limited (“Zhuhai Ruiye”), the Company’s subsidiary, received an arbitration request issued by 珠海城市建設集團有限公司 (“城建集團”), the landlords of CUBIC SPACE+ and 珠海城建海韻資產經營管理有限公司 (“城建海韻”), the property management company of CUBIC SPACE+, alleged that Zhuhai Ruiye has breached the tenancy agreement of CUBIC SPACE+ in Zhuhai, the PRC. 城建集團 and 城建海韻 alleged that Zhuhai Ruiye had failed to pay the rental expense and building management fee for the period of October 2018 to August 2019 and February 2020 to April 2020, together with costs of the legal proceedings for approximately HK\$8,346,000 (equivalent to approximately RMB6,924,000). Zhuhai Ruiye submitted that the condition of the property was substandard quality at the delivery date and suffered substantial losses due to the leakage of the property. Zhuhai Ruiye applied for a counterclaim to the landlords and the property management company and requested waiver for the rental fee and building management fee for the above period and compensation for the losses due to the water leakage of the property, repairs and maintenances, labor costs together with costs of legal proceedings for approximately HK\$15,947,000 (equivalent to approximately RMB13,230,000). The arbitration committee requested Zhuhai Ruiye to provide the evidences of the substandard quality of the property and breakdown for the labor cost for further judgement and Zhuhai Ruiye has provided the relevant documents accordingly. On 7 October 2022, Zhuhai Ruiye received a judgement from the Zhuhai Arbitration Commission ordered Zhuhai Ruiye to pay 城建集團 for the outstanding rental and penalties in the sum of approximately RMB3 million. Zhuhai Ruiye had made the provisions for the payment of the foregoing as at 30 September 2022.

10. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company has decided not to proceed with the acquisition of the entire issued share capital of C45 Holdings Limited since C45 Holdings Limited has not been able to perform all of its obligations at completion. The share purchase agreement dated 13 June 2022 and the supplemental agreements thereof shall become void and of no further effect, all liabilities and obligations of the parties shall cease and determine, and all Consideration Shares, being 317,064,220 Shares shall be cancelled. Please refer to the announcement of the Company dated 10 October 2022 and the next day disclosure return dated 14 October 2022 for further details.

On 21 October 2022, the Company announced that Zhuhai Ruiye Bar Management Company Limited (“Zhuhai Ruiye”), the Company’s subsidiary, was notified that the operation of CUBIC SPACE+ in Zhuhai has been ceased with effect from 20 October 2022. Please refer to the announcement of the Company dated 21 October 2022 for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first three quarters of 2022, the Group primarily engaged in the operation of clubbing business namely “CUBIC SPACE+” in Zhuhai City of Mainland China and the operation of restaurants namely “HEXA”, “SIXA” and “GaGiNang” in Hong Kong which are all through subsidiaries and associate of the Group.

BUSINESS REVIEW

Operation of Restaurant Business

The onslaught of the fifth wave of the epidemic has dealt a heavy blow to our restaurant business. Dine-in services banned from 6:00 p.m. to 4:59 a.m. the next day from 7 January 2022 to 20 April 2022. Compounding matters, limited seating limit to two people per table and new rules requiring visitors to display their vaccination record when entering venues such as shopping malls and restaurants has dealt another blow to our restaurant business. The situation is highly undesirable, our restaurants have dropped 60% to 90% of the sales before the banning of the dine-in services. As the pandemic situation is severe and the business environment for catering industry remains difficult, our associate company, Luk Hing Mandarin Limited has ceased operation of the restaurant namely “GaGiNang” on 22 February 2022. Following the first stage relaxation in social distancing measures since 21 April 2022 and further relaxing from 5 May 2022 allowing catering premises to accommodate eight persons per table, our restaurants restore to the sale revenue level before the banning of dine-in services leading to the uplift of sales revenue in the second and third quarters of 2022.

Operation of Clubbing Business

Our clubbing business, CUBIC SPACE+ in Zhuhai has temporary suspended its operation from 13 January 2022 in the wake of stringent anti-epidemic measures imposed by the local government. Further to the disclosure in the Company's annual report dated 24 March 2022 and interim report dated 9 August regarding the legal proceeding between Zhuhai Ruiye Bar Management Company Limited ("Zhuhai Ruiye"), the Company's subsidiary operating CUBIC SPACE+, 珠海城市建設集團有限公司 ("城建集團"), the landlords of CUBIC SPACE+ and 珠海城建海韻資產經營管理有限公司 ("城建海韻"), the property management company of CUBIC SPACE+, Zhuhai Ruiye received judgement from Zhuhai Arbitration Commission on 7 October 2022 ordered Zhuhai Ruiye to pay 城建集團 and 城建海韻 the outstanding rental and penalties in the sum of approximately HK\$3.6 million which Zhuhai Ruiye had made the provisions for the payment as at 30 September 2022. In addition, the Group would be unable to continue to operate CUBIC SPACE+ from 20 October 2022 due to the disputes between 城建集團 and 城建海韻 and the Group in relation to the operation of CUBIC SPACE+ at Zhuhai Grand Theatre, in Zhuhai, the PRC. The Group performed an impairment assessment on the assets of CUBIC SPACE+, a loss on cessation of business of approximately HK\$11.2 million for CUBIC SPACE+ was recognized as at 30 September 2022 which mainly included write-off on plant and equipment, right-of-use assets and rental deposits and gain on lease termination of CUBIC SPACE+. Please refer to the announcement of the Company dated 21 October 2022 for details on the cessation of operation of CUBIC SPACE+.

On 13 June 2022 and 14 June 2022, the Company and the Vendor, Infinity Entertainment Group Limited entered into an agreement and supplementary agreement through which the Company has conditionally agreed to acquire 100% sale share of C45 Holdings Limited which is principally engaged in the operation of nightlife and clubbing business in Hong Kong. The acquisition transaction was terminated on 10 October 2022 since the Vendor has not performed all of its obligations at Completion. Please refer to the announcement of the Company dated 10 October 2022 for details.

The business environment was extremely challenging in the past few years due to the COVID-19 pandemic, in particular the outbreak of the Omicron variant and the fifth wave of COVID-19 since the first quarter of 2022. The Group continued maintaining its proactive while prudent approach to position itself in the best of financial and operational health to counter the challenges posed by COVID-19. The Group has shifted its strategy and operations to ensure effective business continuity and evolution in this new rhythm of business. We have taken measures to the greatest extent in protecting the health of our staff and the community at large including promoting vaccination among our colleagues with 99% of the Group's colleagues in Hong Kong vaccinated. We have implemented stronger measures aiming at improving the working capital and cashflows of the Group such as closely monitoring incurrence of other operating expenses and the management will continue its negotiation with the landlords for rent concessions of our restaurants. Furthermore, we have explored funding sources to enhance the financial position of the Company. The Group will continue, in the best interests of the Company and the Shareholders as a whole, endeavor fund-raising alternatives to strengthen the capital base and support the continuing growth of the Company.

FINANCIAL REVIEW

Revenue

Total revenue of the Group decreased by 69.9% from approximately HK\$127.6 million in the first three quarters of 2021 to approximately HK\$38.4 million in the same period of 2022 mainly due to the cessation of operation of Club Cubic Macau and CUBIC SPACE+ and the banning of dine-in services in restaurants from 6:00 p.m. to 4:59 a.m. the next day from 7 January 2022 to 20 April 2022.

Expenses

Cost of inventories sold mainly represents for the costs of beverage, food and tobacco products sold. It decreased by 63.4% from approximately HK\$32.8 million in the first three quarters of 2021 to approximately HK\$12.0 million in the same period of 2022 which was in line with the decrease of revenue.

Staff costs is one of the major components of the Group's operating expenses, which mainly consists of Directors' emoluments, salaries, retirement benefit scheme contribution and other benefits. Staff costs decreased by 65.5% from approximately HK\$68.0 million in the first three quarters of 2021 to approximately HK\$23.5 million in the same period of 2022. This was explained by the material decrease of salary costs resulted from the cessation of operation of Club Cubic Macau and CUBIC SPACE+.

Property rentals and related expenses increased by 9% from approximately HK\$6.8 million in the first three quarters of 2021 to approximately HK\$7.4 million in the same period of 2022. A provision of approximately HK\$2.2 million for the outstanding rental made in the third quarter of 2022 following the litigation partially offset by the decrease of rental expense from the cessation of operation of Club Cubic Macau from October 2021.

Advertising and marketing expenses decreased by 91.6% from approximately HK\$1.5 million in the first three quarters of 2021 to approximately HK\$0.1 million in the same period of 2022 due to the adoption of stringent cost control measures on marketing expense to cope with the impact of COVID-19.

Other operating expenses represent expenses incurred for the operations. These include mainly cleaning and laundry, utilities, credit card commission, repair and maintenance, insurance expense and write-off expenses. Other operating expenses decreased by 23.4% from approximately HK\$24.4 million in the first three quarters of 2021 to approximately HK\$18.7 million in the same period of 2022. Decrease of other operating expenses resulted from the cessation of operation of Club Cubic Macau and CUBIC SPACE+ partially offset by the write-off expense of approximately HK\$3.4 million on the outstanding receivables from an associate company and bad debt provision of approximately HK\$4.8 million on the outstanding loan and interest receivable from an individual under the money lending business which the Company has taken legal action against the individual to recover the outstanding receivable.

Depreciation and Amortization decreased by 23.3% from approximately HK\$26.0 million in the first three quarters of 2021 to approximately HK\$19.9 million in the same period of 2022. This was mainly due to the cessation of operation of Club Cubic Macau from October 2021.

Loss on Cessation of Business

The Group was unable to continue to operate CUBIC SPACE+ from 20 October 2022 due to the disputes between 城建集團 and 城建海韻 and the Group in relation to the operation of CUBIC SPACE+ at Zhuhai Grand Theatre, in Zhuhai, the PRC. The loss on cessation of business represents for write-off on plant and equipment, write-off on right-of-use assets, write-off on rental deposit and gain on lease termination which amounted to approximately HK\$23.6 million, HK\$9.2 million, HK\$0.9 million and HK\$22.4 million respectively.

Loss Attributable to Owners of the Company

Net loss attributable to owners of the Company was approximately HK\$41.7 million in the first three quarters of 2022 compared to that of approximately HK\$26.7 million in the same period of 2021. Increase in net loss was mainly attributable to the loss on cessation of business for our clubbing business in Zhuhai namely CUBIC SPACE+ and the bad debt provision of approximately HK\$4.8 million on the outstanding loan and interest receivable from an individual under the money lending business which the Company has taken legal action against the individual to recover the outstanding receivable.

OUTLOOK

Due to the fifth wave of COVID-19 pandemic in early 2022, the Hong Kong government imposed strict dine-in restrictions and social distancing measures. The Group's restaurants were also temporarily closed due to the severe outbreak of the pandemic, and its turnover in the first nine months of 2022 was adversely impacted, resulting in operating loss for the Group.

However, as the industry continued to adapt to the post-pandemic new market normality, together with the support from our loyal customers, the Group expects strong recovery in turnover after social distancing measures began to be relieved.

In the meantime, the Group will try to focus and consolidate its current business operations in Hong Kong after the closure of Club Cubic Macau and CUBIC SPACE+ in Macau and Zhuhai respectively.

Stringent cost controls and detailed business analysis in the new markets will continue to be one of the management's key focus areas while the Group will continue to further enhance the restaurant businesses in Hong Kong through marketing in social media and tailor-made customer services. Management will closely observe the latest trends in pandemic, customers' behaviour, competitors' approach and travel arrangements by the respective countries and authorities.

With the gradual relief of the pandemic and introduction of vaccines, the Group remains fully confident in the long-term prospects of its restaurant businesses in Hong Kong. Management believes that the public will be able to return to the pre-pandemic lifestyle in the near future. The Group will continue to strictly implement the containment measures and strengthen the disinfection and cleaning of its restaurants to fight against the pandemic together with the public.

Despite the uncertain and challenging business environments in Hong Kong, we will try our best to leverage our brand and network in order to improve our financial positions for our shareholders and stakeholders.



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

As at 30 September 2022, 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 ⁽⁴⁾
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)	47.74%
	Welmen Investment Co. Ltd ("Welmen")	Interest of a controlled corporation	3,031.11 ordinary shares of Welmen (L)	30.3111%
		Beneficial owner	1,262.225 ordinary shares of Welmen (L)	12.62225%
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)	47.74%
	Welmen	Interest of a controlled corporation	3,031.11 ordinary shares of Welmen (L)	30.3111%
		Beneficial owner	1,262.225 ordinary shares of Welmen (L)	12.62225%

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 ⁽⁴⁾
Mr. Yeung Chi Shing (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	47.74%
		Personal Interest	18,000,000 ordinary shares of the Company (L)	0.79%
	Welmen	Beneficial owner	1,234.44 ordinary shares of Welmen (L)	12.3444%
Mr. Au Ka Wai (Note 2)	The Company	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	47.74%
		Personal Interest	18,000,000 ordinary shares of the Company (L)	0.79%
	Welmen	Beneficial owner	1,604.44 ordinary shares of Welmen (L)	16.0444%

Notes:

- (1) The letter “L” denotes the person’s long position in the shares of the Company or the relevant associated corporation.
- (2) On 2 March 2016, Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Au Wai Pong Eric, Mr. Au Ka Wai, Mr. Yeung Bernard Sie Hong and Mr. Yeung Chi Shing entered into an acting in concert confirmation whereby each of them confirmed that since 31 January 2011, they acted in concert with each other when dealing with matters concerning operation management, accounts, finance and treasury and human resources management of the Group, details of which are set out in the Prospectus. On 20 August 2019, Mr. Yeung Bernard Sie Hong sold all his shares in Welmen to Mr. Choi Kuen Kwan (father of Mr. Choi Yiu Ying and Mr. Choi Siu Kit). On 4 June 2020, Mr. Choi Kuen Kwan sold 50% and 50% of his shares in Welmen to Mr. Choi Yiu Ying and Mr. Choi Siu Kit respectively. 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 and Mr. Yeung Chi Shing is deemed to be interested in 47.74% 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 47.74% of the issued share capital of the Company held by Welmen.
- (4) The “approximate percentage of shareholding interest” has not taken the 317,064,220 Consideration Shares into account as mentioned in the Company’s announcement dated 10 October 2022.

Save as disclosed above and so far as is known to the Directors, as at 30 September 2022, 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 30 September 2022, 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 ⁽¹⁰⁾
Welmen	Beneficial owner	1,093,500,000 ordinary shares (L)	47.74%
Yui Tak (Note 2)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	47.74%
Ocean Concept (Note 2)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	47.74%
Toprich (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	47.74%
Perfect Succeed (Note 3)	Interest of a controlled corporation	1,093,500,000 ordinary shares (L)	47.74%

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest ⁽¹⁰⁾
Ms. Chan Ting Fai (Note 4)	Interest of spouse	1,093,500,000 ordinary shares (L)	47.74%
Mr. Au Wai Pong Eric (Note 5)	Interest held jointly with another person	1,093,500,000 ordinary shares of the Company (L)	47.74%
	Personal Interest	18,000,000 ordinary shares of the Company (L)	0.79%
	Beneficial owner	1,605.56 ordinary shares of Welman (L)	16.0556%
Ms. Lee Wan (Note 6)	Interest of spouse	1,111,500,000 ordinary shares (L)	48.53%
Trendy Pleasure Limited ("Trendy") (Note 7)	Beneficial owner	300,000,000 ordinary shares (L)	13.10%
Saint Lotus Cultural Development Group Co., Limited ("Saint Lotus") (Note 7)	Interest of a controlled corporation	300,000,000 ordinary shares (L)	13.10%
Mr. Zhang Jianguang (Note 7)	Interest of a controlled corporation	300,000,000 ordinary shares (L)	13.10%
Kenbridge Limited ("Kenbridge")	Beneficial owner	121,500,000 ordinary shares (L)	5.30%
Mr. Poon Ching Tong Tommy (Note 8)	Interest of a controlled corporation	121,500,000 ordinary shares (L)	5.30%

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding interest ⁽¹⁰⁾
Ms. Lau Sze Mun Charmaine (Note 9)	Interest of spouse	121,500,000 ordinary shares (L)	5.30%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) 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 47.74% of the issued share capital of the Company held by Welmen.
- (3) 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 47.74% of the issued share capital of the Company held by Welmen.
- (4) 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 47.74% of the issued share capital of the Company in which Mr. Choi Siu Kit is interested.
- (5) Mr. Au Wai Pong Eric resigned as a non-executive Director of the Company on 23 February 2022.
- (6) 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 48.53% of the issued share capital of the Company in which Mr. Au Wai Pong Eric is interested.
- (7) Trendy is wholly owned by Saint Lotus and Saint Lotus is wholly owned by Mr. Zhang Jianguang. By virtue of the SFO, each of Saint Lotus and Mr. Zhang Jianguang is deemed to be interested in 13.10% of the issued share capital of the Company held by Trendy.
- (8) 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 5.30% of the issued share capital of the Company held by Kenbridge.
- (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 5.30% of the issued share capital of the Company in which Mr. Poon Ching Tong Tommy is interested.
- (10) The "approximate percentage of shareholding interest" has not taken the 317,064,220 Consideration Shares into account as mentioned in the Company's announcement dated 10 October 2022.

Save as disclosed above and so far as is known to the Directors, as at 30 September 2022, no other interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine-month period ended 30 September 2022.

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 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 Siu Kit, our executive Director and also controlling shareholder of the Company, is 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 his interests in the Retained HK Restaurant and Bar Business during the nine-month period ended 30 September 2022:

Name of entity	Nature of interests
Mighty Force Catering Group Limited (Note)	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)	Approximately 7.5% of issued share capital was held by Mr. Choi Siu Kit's spouse
Eastern Full Limited (Note)	Approximately 7.5% of issued share capital was held by Mr. Choi Siu Kit's spouse

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

As Mr. Choi Siu Kit had engaged the Retained HK Restaurant before the Group's Listing, 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.

Save as disclosed, during the nine-month period ended 30 September 2022, 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) were engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or had any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

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

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2022.

NON-COMPLIANCE WITH THE GEM LISTING RULES

The Board understands that following the resignation of Mr. Tang Tsz Tung as an independent non-executive Director, ceased to be a member of the audit committee, the chairman of the remuneration committee and a member of the nomination committee of the Company on 13 October 2022, the Company currently only has 2 independent non-executive Directors. The number and composition of independent non-executive directors fail to meet the requirements under (i) Rule 5.05(1) of the GEM Listing Rules which requires the board of directors must include at least 3 independent non-executive directors; (ii) Rule 5.05(A) of the GEM Listing Rules which requires the Company must appoint independent non-executive directors representing at least one-third of the board; (iii) Rule 5.28 of the GEM Listing Rules requires the audit committee to comprise a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 5.05(2); and (iv) Rule 5.34 of the GEM Listing Rules which requires the Remuneration Committee to comprise a majority of independent non-executive Directors.

As such, the Board will make its best endeavors to identify suitable candidates to fill the vacancy as soon as practicable and in any event within three months from 13 October 2022 in order to ensure compliance by the Company with the requirements under the GEM Listing Rules. The Company will make further announcement(s) as and when appropriate.

BOARD OF DIRECTORS

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

Executive Directors

Mr. Choi Yiu Ying (*Chairman and Chief Executive Officer*)

Mr. Choi Siu Kit

Mr. Yeung Chi Shing

Mr. Zhang Rongxuan

Non-executive Director

Mr. Au Ka Wai

Independent Non-executive Directors

Mr. Ip Hoi Fan

Mr. Chan Wai

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

Hong Kong, 10 November 2022