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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to FY2022 Annual Report. Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the FY2022 Annual Report.

In addition to the information provided in the FY2022 Annual Report, the Board wishes to supplement further information in respect of the impairment losses on (i) Loan Receivable and (ii) the Loans to an Associate and the Amount Due from an Associate of approximately HK$3.3 million and HK$3.9 million respectively for the year ended 31 December 2022.

I. LOAN RECEIVABLE

The Board wishes to provide further information in respect of (i) the nature of the loan receivable that was impaired, and (ii) the background and circumstances leading to the impairment, as follows:

Principal terms and the reason for granting the 2018 Loans

On 22 October 2018, LH Capital had entered into a loan agreement (the "**2018 Loan Agreement**") with the Customer, being an independent third party and businessman who engaged in clubbing business investment in the PRC, to grant an interest-bearing loan in the principal amount of HK$3,450,000 at an interest rate of 10% per annum repayable by 22 October 2019 (the "**2018 Loan**").

The 2018 Loan was granted by LH Capital to the Customer for the purpose of financing the Customer's plan to establish the Zhuhai Night Club.

In November 2018, as one of the conditions for LH Capital to grant the 2018 Loan, the Company (through Zhuhai Luk Hing, a wholly-owned subsidiary of the Company which was principally engaged in provision of consultancy services to existing or perspective clubbing business owners) had further entered into a consultancy service agreement with Shenzhen Chaofei, a limited liability company established in the PRC which to the best of the knowledge of the Directors, was controlled by the Customer to operate the Zhuhai Night Club, whereby Zhuhai Luk Hing agreed to offer consultancy service in respect of corporate image planning and ancillary services for a monthly consultancy fee of RMB200,000 payable by Shenzhen Chaofei. Such fee shall be payable upon commencement of operation of the Zhuhai Night Club.

Background and circumstances leading to the impairment

Since the Customer failed to repay the 2018 Loan by October 2019, the maturity date of the 2018 Loan was extended to 30 June 2022 in accordance with the 2018 Loan Agreement.

In early-2020, the Zhuhai Night Club ceased operation due to the outbreak of the COVID-19 pandemic.

By 30 June 2022, the Customer had failed to repay the outstanding sums and interests pertaining to the 2018 Loan.

In August and September 2022, LH Capital had engaged a law firm in Hong Kong and issued a demand letter for the outstanding indebtedness in the sum of HK$4,743,041.08 from the Customer. Despite the demand, the Customer had failed to pay the outstanding indebtedness to LH Capital. A writ of summons was served on the Customer in respect of the outstanding indebtedness. As of the date of this announcement, the litigation against the Customer has been ongoing and will be further heard at the High Court of Hong Kong in November 2023.

In light of the development, in February 2023, the Directors had considered the remoteness of recoverability of the loan receivable pertaining to the 2018 Loan and accounting policies for expected credit loss, and takes the view that the loan receivable pertaining to the 2018 Loan was considered as credit-impaired with expected credit loss fully provided in the consolidated financial statement of the Group for the year ended 31 December 2022.

II. LOANS TO AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE

As disclosed in Note 4(b) to the consolidated financial statements in the FY2022 Annual Report, as at 31 December 2022, the Group's loans to an associate and amount due from an associate is approximately HK$9,076,000 which are past due 90 days or more. The Board wishes to provide further information in respect of the nature, principal terms of, and the breakdown in respect of (i) the loans to an associate, which concerned the provision of shareholder loans by L&B Mandarin to and LH Mandarin, an associate of the Company of which L&B Mandarin, an indirect subsidiary of the Company, owned as to approximately 29.73% of the issued share capital of LH Mandarin (the "**Loans to an Associate**"); and (ii) amount due from an associate, which concerned various advances made by the Company and members of the Group to LH Mandarin (the "**Amount Due from an Associate**").

The Loans to an Associate

The Loans to an Associate refers to the shareholders loans in a total amount of HK$3,570,400 made available by L&B Mandarin to LH Mandarin (i) in the principal amount of HK$2,335,200 upon completion of the subscription of 6,127,2000 shares of LH Mandarin by other subscribers pursuant to the subscription agreements dated 30 March 2020; and (ii) in the principal amount of HK$1,235,200 pursuant to a shareholders' loan agreement dated 16 September 2020. The shareholders loans were interest-free in nature, unsecured, and in proportion to the shareholding interest of L&B Mandarin in LH Mandarin (i.e. approximately 29.73% of the issued share capital of LH Mandarin). For further details, please refer to the announcements of the Company dated 30 March 2020 and 16 September 2020.

The Amount Due from an Associate

The Amount Due from an Associate comprised various transactions between the Group and LH Mandarin during the period from February 2020 to December 2022 of approximately HK$5.5 million, which comprised mainly (i) loan advancement of approximately HK$2 million; (ii) management, consultancy and professional services expenses of approximately HK$1.1 million; (iii) food and beverage ingredients expenses of approximately HK$1.3 million; (iv) expenses concerning surrender of tenancy of approximately HK$0.8 million and (v) other expenses of approximately HK$0.3 million. Exclusive of the trade receivables under Rule 17.17A(1) of the GEM Listing Rules and transactions arising on normal commercial terms under Rule 17.17A(2) of the GEM Listing Rules, transactions in respect of the Amount Due from an Associate that were relevant to the Board's assessment on GEM Listing Rules implication were:

(i) a series of interest-free advances in a total amount of approximately HK$2 million made available during the period from January 2021 to June 2022 by the Company to LH Mandarin; and

(ii) a series of interest-free advances in the total amount of approximately HK$0.8 million made available by Betula during the period from June 2022 to November 2022, concerning expenses on early surrender of the tenancy of "GaGiNang", a Chiuchow restaurant operated through LH Mandarin, Harbour City (together with (i) and (ii) above, the "**Relevant Transactions**").

Each of the Relevant Transactions were interim finance offered by the Group that were interest-free, unsecured, with no fixed term of repayment and were repayable on demand.

The reasons for granting loans and advancement to LH Mandarin and the background and circumstances leading to impairment

Due to the outbreak of the COVID-19 pandemic which had resulted in social distancing policies imposed by the government as well as the outspread of virus from 2020 to 2022, food and beverage business had been significantly disrupted. The business operation of "GaGiNang", a Chiuchow restaurant operated through LH Mandarin, had been significantly disrupted and was under financial pressure. To ease the financial pressure of LH Mandarin, the Group had made advances to LH Mandarin by means of shareholder loan, payment of tenancy surrender expenses, as well as other advances on normal and commercial terms which concerned ordinary and usual course of business of LH Mandarin, (including management, consultancy and professional services as well as food and beverage ingredient expenses) on behalf of LH Mandarin.

The Directors were of the view that the advances made in the Relevant Transactions were of normal commercial term since at the relevant time, the Company wished to maintain continual operation of the "GaGiNang" restaurant and such direct interest-free advances from the Group, which were repayable on demand, would have offered swift and direct financial support to the operational needs of LH Mandarin, as comparing to alternatives such as obtaining interim finances from banks or money lenders.

As disclosed in the FY2022 Annual Report, as the pandemic situation was severe and the business environment for catering industry remains difficult, LH Mandarin had ceased operation of the "GaGiNang" restaurant on 22 February 2022. On 14 February 2023, LH Mandarin had further received a winding up petition from one of its employees. The Directors, having taken into account of the accounting policies for expected credit loss, considered that credit impaired for those past due more than 90 days and the associate was in winding up petition. The Loans to an Associate and the Amount Due from an Associate are considered as credit-impaired and written-off during the year.

As of the date of this announcement, "GaGiNang" restaurant had ceased operation and the Company is in discussion and negotiation with the other shareholders of LH Mandarin in relation to the potential winding up of LH Mandarin, and shall update the shareholders of the latest progress as and when appropriate.

III. VALUATION CONDUCTED IN SUPPORT OF THE IMPAIRMENT ASSESSMENT

Engagement of the Valuer to conduct valuation in support of the impairment assessment

As required under the Group's accounting policies on intangible assets and goodwill impairment, the Company's management is required to perform interim and annual impairment test if there is indication of such impairment existing as at the balance sheet date. The impairment assessment process involves the Company's management estimation on the expected future cash flow, associated growth rates and discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets and goodwill.

The Company had engaged Vincorn Consulting and Appraisal Limited (the "**Valuer**"), an independent professional valuer for the purpose of the valuation of, among others, the impairment assessment concerning the Loan Receivable, the Loans to an Associate and the Amount Due from an Associate. The Valuer is listed as a Hong Kong surveying company under the directory of the Hong Kong Institute of Surveyors and the valuation exercise was conducted by qualified professionals who are registered valuers of Royal Institution of Charted Surveyors and Hong Kong Institute of Surveyors.

Key value of inputs/assumptions adopted in the valuation

For the purpose of determining the fair value of the expected credit loss, the following assumptions have been made by the Valuer:

(1) No material change in the existing political, taxation, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Company;

(2) The conditions in which the Company is operated, and which are material to revenue and costs of the businesses of the Company will have no material change;

(3) The information has been prepared on a reasonable basis after due and careful consideration by the Company;

(4) Competent management, key personnel and technical staff will be maintained to support the ongoing operation and development of the Company;

(5) All licenses and permits that is essential for the operation of the Company can be obtained and are renewable upon expiry;

(6) There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value; and

(7) No changes in market conditions after the date of valuation.

Underlying valuation methodology

The valuation analysis was performed under an expected credit loss model based on the General Approach in accordance to the expected credit loss impairment requirements in HKFRS 9 Financial Instruments. The expected credit loss model applies to debt instrument recorded at amortized cost or at fair value through other comprehensive income. All entities are required to recognise an allowance for either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of expected credit losses reflects a probability-weighted outcome, the time value of money and the best available forward-looking information. The changes in macroeconomic factors will also affect expected credit losses.

The measurement of expected credit losses based on General Approach is conducted in 3 stages:

i) Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-months expected credit losses are recognized. 12– months expected credit losses are the expected credit losses that result from default events that are possible within 12-months after the reporting date.

ii) Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime expected credit losses are recognized. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial instrument.

iii) Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial instrument.

Based on the key value of inputs/assumptions adopted and the underlying valuation methodology used by the Valuer, the expected credit losses for the Loan Receivables, the Loans to an Associate and the Amount Due from an Associate are, as at 31 December 2022, reasonably estimated at HK$3,450,000, HK$3,570,000 and HK$5,510,000, respectively.

IV. DEFINITIONS AND INTERPRETATIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"2018 Loan"	having the meaning ascribed to it under the section headed "I. LOAN RECEIVABLE" of this announcement
"2018 Loan Agreement"	having the meaning ascribed to it under the section headed "I. LOAN RECEIVABLE" of this announcement
"Amount Due from an Associate"	having the meaning ascribed to it under the section headed "II. LOANS TO AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE" of this announcement
"Betula"	Betula Profit Holdings Limited, an indirect non-wholly owned subsidiary of the Company which is principally engaged in catering business
"Board"	the board of Directors
"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 the Stock Exchange
"COVID-19"	a viral respiratory disease caused by the severe acute respiratory syndrome coronavirus 2
"Customer"	Mr. Lee Cheuk Yin, Jimmy
"Directors"	the director(s) of the Company
"FY2022 Annual Report"	the annual report of the Company for the year ended 31 December 2022
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	The Rules Governing the Listing of Securities on GEM

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"LH Capital"	Luk Hing Capital Limited (陸慶資本有限公司), a subsidiary of the Company which is principally engaged in money lending business of granting loans to entities in the food and beverage and entertainment industry
"LH Mandarin"	Luk Hing Mandarin Limited (陸慶大華有限公司), a former indirect wholly-owned subsidiary of the Company and now an associate of the Company which was principally engaged in the operation of the "GaGiNang" restaurant, of which L&B Mandarin, an indirect subsidiary of the Company, owned as to approximately 29.73% of the issued share capital of LH Mandarin
"Loans to an Associate"	having the meaning ascribed to it under the section headed "II. LOANS TO AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE" of this announcement
"L&B Mandarin"	L&B Mandarin Limited, an indirect subsidiary of the Company and the shareholder of LH Mandarin
"PRC"	the People's Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Shareholders"	the holders of shares of the Company
"Shenzhen Chaofei"	Shenzhi Chaofei Food and Beverage Entertainment Management Limited* (深圳市超菲餐飲娛樂管理有限公司), a limited liability company controlled by the Customer to operate the Zhuhai Night Club
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Zhuhai Luk Hing"	Zhuhai Hengqin Luk Hing Hualin Cultural Investment Limited* (珠海橫琴陸慶樺霖文化產業投資有限公司), a wholly-owned subsidiary of the Company which was principally engaged in provision of consultancy services to existing or perspective clubbing business owners
"Zhuhai Night Club"	A night club under the brand name "Superface" controlled and operated by the Customer and Shenzhen Chaofei, which had ceased business operation in mid 2020
"%"	per cent

By order of the Board
Luk Hing Entertainment Group Holdings Limited
Choi Siu Kit
Executive Director

Hong Kong, 7 September 2023

As at the date of this announcement, the executive Directors are Mr. Choi Yat Hon, Mr. Choi Siu Kit and Mr. Patrick Ting; the non-executive Director is Mr. Au Ka Wai; and the independent non-executive Directors are Mr. Ip Hoi Fan, Ms. Tse Mei Ling, Mr. Mak Kwok Kwan Terence and Ms. Woo Man Hung.

This announcement, for which all the Directors 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 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 announcement 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 announcement misleading.

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk, in the case of the announcement, on the "Latest Listed Company Information" page of the GEM for 7 days from the day of its posting. This announcement will also be published on the Company's website at www.lukhing.com.