



PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8547



2018 Third Quarterly Report

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given 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.

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This report, for which the directors (the “Directors”) of Pacific Legend Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

The original report is prepared in the English language. This report is translated into Chinese. In the event of any inconsistencies between the Chinese and the English versions, the latter shall prevail and it is available on the Company’s website at www.pacificlegendgroup.com.

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FINANCIAL HIGHLIGHTS

- The unaudited revenue of the Group amounted to approximately HK\$180.1 million for the nine months ended 30 September 2018, representing a decrease of approximately HK\$12.6 million or 6.6% as compared with the revenue of approximately HK\$192.7 million for the nine months ended 30 September 2017.
- The unaudited loss of the Group after tax was approximately HK\$24.0 million for the nine months ended 30 September 2018 as compared to a loss of approximately HK\$0.4 million for the nine months ended 30 September 2017.
- Basic and diluted loss per share was both 2.94 Hong Kong cents for the nine months ended 30 September 2018 compared to basic and diluted loss per share of 0.06 Hong Kong cent for the nine months ended 30 September 2017.
- No interim dividend is recommended by the Board for the nine months ended 30 September 2018.

UNAUDITED THIRD QUARTERLY FINANCIAL INFORMATION

The board of Directors (the “Board”) of Pacific Legend Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2018 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2018

	Note	Three months ended 30 September		Nine months ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000	2018 HK\$'000 (Unaudited)	2017 HK\$'000
Revenue	4	60,915	73,875	180,054	192,742
Cost of sales		(23,477)	(31,739)	(70,990)	(79,461)
Gross profit		37,438	42,136	109,064	113,281
Other income and gains	5	603	320	2,187	636
Selling and distribution costs		(13,960)	(13,431)	(40,941)	(38,209)
Administrative and other operating expenses		(28,666)	(23,819)	(82,583)	(71,575)
Finance cost		(59)	–	(66)	–
Listing expenses		(2,372)	(3,213)	(11,587)	(4,578)
(Loss)/profit before taxation	6	(7,016)	1,993	(23,926)	(445)
Income tax expense	7	(32)	–	(113)	–
(Loss)/profit for the period attributable to equity shareholders of the Company		(7,048)	1,993	(24,039)	(445)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2018

		Three months ended		Nine months ended	
		30 September		30 September	
		2018	2017	2018	2017
Note		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)		(Unaudited)	
Other comprehensive (loss)/income					
Item that may be classified subsequently to profit or loss:					
	– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	<u>(18)</u>	54	<u>187</u>	634
Total comprehensive (loss)/income for the period attributable to equity shareholders of the Company		<u><u>(7,066)</u></u>	<u>2,047</u>	<u><u>(23,852)</u></u>	<u>189</u>
Dividend paid	8	<u>–</u>	–	<u><u>(26,250)</u></u>	–
(Loss)/earnings per share attributable to equity shareholders of the Company (HK Cents)					
	9	<u><u>(0.74)</u></u>	0.27	<u><u>(2.94)</u></u>	<u>0.06</u>
	Basic and diluted				

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Other reserve HK\$'000 (Unaudited)	Accumulated profits HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Balance at 1 January 2017	789	-	(592)	-	98,777	98,974
Loss for the period	-	-	-	-	(445)	(445)
Other comprehensive income	-	-	634	-	-	634
Total comprehensive income/(loss) for the period	-	-	634	-	(445)	189
Balance at 30 September 2017	<u>789</u>	<u>-</u>	<u>42</u>	<u>-</u>	<u>98,332</u>	<u>99,163</u>
Balance at 1 January 2018	779	-	128	10	101,900	102,817
Loss for the period	-	-	-	-	(24,039)	(24,039)
Other comprehensive income	-	-	187	-	-	187
Total comprehensive income/(loss) for the period	-	-	187	-	(24,039)	(23,852)
Issue of shares under subscription agreement (note 2(d))	-	10,000	-	-	-	10,000
Effect of reorganisation (note 2(c))	(779)	-	-	779	-	-
Issue of shares pursuant to the Capitalisation (note 2(e))	7,500	(7,500)	-	-	-	-
Issue of shares pursuant to the share offer (note 2(f))	2,500	72,576	-	-	-	75,076
Expenses incurred in relation to the issue of shares (note 2(f))	-	(7,940)	-	-	-	(7,940)
Dividend paid (note 8)	-	-	-	-	(26,250)	(26,250)
Balance at 30 September 2018	<u>10,000</u>	<u>67,136</u>	<u>315</u>	<u>789</u>	<u>51,611</u>	<u>129,851</u>

Other reserve represented the difference between the total issued share capital of the Company's wholly owned Hong Kong incorporated subsidiaries Pacific Legend Development Limited ("Pacific Legend Development") and of Deep Blue Living Limited ("Deep Blue"), and the issued share capital of the Company (see note 2 for details of the reorganisation of the Group).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 1 September 2017. The registered office of the Company is Cricket Square Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Units 1202-04, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong.

The Company is an investment holding company and its shares are listed on GEM of the Stock Exchange since 18 July 2018 (the “Listing”). The Company’s subsidiaries are principally engaged in the sale of home furniture and accessories, rental of home furniture and accessories and project and hospitality services (the “Listing Businesses”).

The unaudited condensed consolidated financial information is presented in Hong Kong dollars (“HK\$”), which is the same as functional currency of the Company.

The companies now comprising the Group (the “Operating Companies”), were under control of Mr. John Warren McLennan, Ms. Alison Siobhan Bailey, Mr. James Seymour Dickson Leach, Mr. John Martin Rinderknecht and Ms. Tracy-Ann Fitzpatrick, immediately before (either direct control or through certain Operating Companies) and after a reorganisation (the “Reorganisation”, as defined in note 2 below through Double Lions Limited (“Double Lions”), a company incorporated in the British Virgin Islands (the “BVI”)). For the purpose of this report, the financial results for the nine months ended 30 September 2017 have been prepared on a combined basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and applicable disclosure provisions of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the historical financial information for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the HKICPA, as set out in Appendix I of the prospectus of the Company dated 29 June 2018 (the “Prospectus”).

In preparation for listing of the Company’s shares on GEM, the Group underwent the Reorganisation to transfer the Listing Businesses to the Company principally through the following steps:

- (a) The Company was incorporated on 1 September 2017 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each. Upon incorporation, one new share of HK\$0.01 was allotted and issued, as nil paid, to the subscriber and was subsequently transferred to Double Lions.
- (b) On 28 December 2017, the one nil paid share in (a) above was credited as fully paid by the Company and the Company further allotted and issued 499 shares at HK\$0.01 each to Double Lions, credit as fully paid, in consideration for the acquisition of the entire issued share capital in Pacific Legend Development.
- (c) On 11 January 2018, the entire issued capital in Deep Blue directly held by the owners of Double Lions (see note 1) was transferred to Raeford Holdings Limited (a company incorporated in the BVI and a wholly owned subsidiary of the Company) in consideration of the Company allotting and issuing 346 shares, credit as fully paid, to Double Lions.
- (d) On 12 January 2018, the Company allotted and issued 154 shares, representing 15.4% of the then enlarged issued share capital of the Company, to two investors for a total cash consideration of HK\$10,000,000.
- (e) Pursuant to the written resolutions passed on 19 June 2018, HK\$7,499,990 standing to the credit of the share premium account of the Company was capitalised from the share premium account of the Company applied in full for the allotment and issuance of 749,999,000 shares (the “Capitalisation”).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

- (f) In connection with the Listing, 250,000,000 shares of HK\$0.01 each were issued at the offer price of HK\$0.30 with gross proceeds of HK\$75,076,000. HK\$2,500,000 was credited to the share capital account and HK\$64,636,000 (net of share issuing expenses of HK\$7,940,000) was credited to the share premium account.

Upon completion of the Reorganisation, the Company has become the holding company of the other companies comprising the Group.

Immediately prior to and after the Reorganisation, the Listing Businesses were conducted through the Operating Companies. Pursuant to the Reorganisation, such Operating Companies together with the underlying Listing Businesses were transferred to and held by the Company. The Reorganisation of such Listing Businesses does not result in any changes in management and the ultimate owners. Accordingly, the combined financial statements of the Operating Companies for the nine months ended 30 September 2017 were presented using the carrying values of the Listing Businesses for such period.

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended 30 September 2018 are the same as those set out in the accountant's report as included in the Prospectus.

In the current nine months period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES (CONTINUED)

The application of the above amendments to HKFRSs in the current nine-month period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosure set out in these condensed consolidated financial statements but additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 “Disclosure Initiative” will be provided in the consolidated financial statements for the year ending 31 December 2018.

The Group has applied HKFRS 15 which resulted in changes in accounting policies used in the preparation of the consolidated financial statements. In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated.

The accounting policies have been changed to comply with HKFRS 15, which replaces HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations associated with the recognition, classification and measurement of revenue and costs.

The adoption of HKFRS 15 resulted in changes in terminology used. “Amounts due from/to customers for contract works” previously used under HKAS 11 in relation to construction contracts were reclassified as “Contract assets/liabilities” under HKFRS 15.

The adoption of HKFRS 15 has no material impact on the condensed consolidated statement of profit or loss and the condensed consolidated statement of cash flows.

4. REVENUE AND SEGMENT INFORMATION

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments:

- Sale of home furniture and accessories
- Rental of home furniture and accessories
- Project and hospitality services

Performance is based on segment gross profit. The Group’s most senior executive management does not evaluate operating segment using assets and liabilities information, so segment assets and liabilities are not reported to the Group’s most senior executive management. Accordingly, reportable segment assets and liabilities have not been presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
Segment revenue – external customers				
– Sale of home furniture and accessories	41,549	49,889	129,099	130,391
– Rental of home furniture and accessories	6,413	7,150	18,154	20,866
– Project and hospitality services	12,953	16,836	32,801	41,485
	<u>60,915</u>	<u>73,875</u>	<u>180,054</u>	<u>192,742</u>
Revenue recognition –				
At a point of time				
– Sale of home furniture and accessories	41,549	49,889	129,099	130,391
Over time				
– Rental of home furniture and accessories	6,413	7,150	18,154	20,866
– Project and hospitality services	12,953	16,836	32,801	41,485
	<u>60,915</u>	<u>73,875</u>	<u>180,054</u>	<u>192,742</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
Segment results				
– Sale of home furniture and accessories	25,441	31,509	79,803	83,926
– Rental of home furniture and accessories	5,360	5,424	14,648	16,190
– Project and hospitality services	6,637	5,203	14,613	13,165
Gross profit	37,438	42,136	109,064	113,281
Other income and gains	603	320	2,187	636
Selling and distribution costs	(13,960)	(13,431)	(40,941)	(38,209)
Administrative and other operating expenses	(28,666)	(23,819)	(82,583)	(71,575)
Finance cost	(59)	–	(66)	–
Listing expenses	(2,372)	(3,213)	(11,587)	(4,578)
(Loss)/profit before taxation	(7,016)	1,993	(23,926)	(445)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenue from external customers

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
Segment revenue – external customers				
– Hong Kong	45,871	46,409	127,023	121,625
– United Arab Emirates (“UAE”)	8,736	14,182	31,789	43,682
– Mainland China (“PRC”)	6,308	13,284	21,242	27,435
	<u>60,915</u>	<u>73,875</u>	<u>180,054</u>	<u>192,742</u>

The revenue information above is based on the locations of the customers.

5. OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
Bank interest income	10	6	28	10
Gain on disposals of property, plant and equipment	–	5	–	12
Interest income from finance leases	64	103	184	228
Sundry income	123	11	343	191
Reversal of provision for bad debts	–	–	351	–
Net exchange gain	209	–	661	–
Franchise related income	197	195	620	195
	<u>603</u>	<u>320</u>	<u>2,187</u>	<u>636</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging:

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
(a) Staff costs:				
Salaries, allowances and commissions	18,143	15,857	53,179	47,772
Retirement benefits scheme contributions	725	576	2,329	1,639
(b) Other items:				
Auditor's remuneration	98	226	335	463
Reversal of allowance for doubtful debts	(57)	–	–	–
Bad debts written off	–	23	–	64
Cost of inventories recognised as expense	22,603	30,587	68,517	76,226
Depreciation	1,811	2,049	5,243	6,021
Net exchange loss	–	328	–	902
Operating lease rentals in respect of rented premises				
– Minimum lease payments	10,051	6,428	26,721	23,610
– Contingent rent	56	48	161	211

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX EXPENSE

Taxation in unaudited consolidated statement of profit or loss and other comprehensive income:

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
Current tax – (provision)/credit for the period				
Hong Kong Profits Tax	(33)	–	(100)	–
PRC Enterprise Income Tax	1	–	(13)	–
	<u>(32)</u>	<u>–</u>	<u>(113)</u>	<u>–</u>

The Group is not subject to any income tax in the Cayman Islands, the BVI and UAE pursuant to the rules and regulations in those jurisdictions.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the nine months ended 30 September 2018 and 2017.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits in accordance with relevant rules and regulations in the PRC.

8. DIVIDEND PAID

On 4 January 2018, the Company paid HK\$26,250,000 to the then sole shareholder, Double Lions.

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018 (2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. (LOSS)/EARNINGS PER SHARE

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
(Loss)/profit for the period attributable to equity shareholders of the Company (<i>HK\$'000</i>)	(7,048)	1,993	(24,039)	(445)
Weighted average number of ordinary shares in issue	953,804,348	750,000,000	818,681,319	750,000,000
Basic and diluted (loss)/earnings per share (<i>HK Cents</i>)	<u>(0.74)</u>	<u>0.27</u>	<u>(2.94)</u>	<u>(0.06)</u>

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit for the period attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue. The weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share for the three and nine months ended 30 September 2017 and 2018 has been determined on the assumption that the Reorganisation and Capitalisation as described in note 2 had been effective from 1 January 2017.

Diluted loss per share for the three and nine months ended 30 September 2017 and 2018 are the same as basic (loss)/earnings per share due to the absence of dilutive potential ordinary shares during the respective periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group principally operates three lines of business, namely, (i) sale of home furniture and accessories (“Furniture Sales”, which includes retail, corporate sales, online shops, wholesale and franchise); (ii) rental of home furniture and accessories (“Furniture Rental”); and (iii) project and hospitality services (“Projects”, which typically involve designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats). The shares of the Company were successfully listed on GEM by way of share offer on 18 July 2018 (the “Share Offer”).

- During the nine months ended 30 September 2018 we have launched two new retail stores, one in Yuen Long, Hong Kong in May 2018 and the other one in Al Wasl Road, Dubai in late August 2018.
- In line with our business strategy we have launched our in-store design consultancy capabilities in both of these stores with a full design centre set up in the Al Wasl Road store.
- We have launched a new instore kid’s concept in these locations in line with our strategy to grow our kids product range and enhance the shopping experience. Marketing of our kids product range has increased in line with our September launch.
- We continue to actively search for appropriate store locations in China in line with our plan for use of proceeds from the Listing. Timing of this is subject to finding suitable retail locations.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the nine months ended 30 September 2018 was approximately HK\$180.1 million, representing a decrease of HK\$12.6 million or 6.6% as compared with the corresponding period (nine months ended 30 September 2017: approximately HK\$192.7 million). It was mainly due to an overall decrease in revenue in Dubai and Shanghai, as explained below.

The revenue from the Furniture Sales decreased by approximately 1.0% from approximately HK\$130.4 million for the nine months ended 30 September 2017 to approximately HK\$129.1 million in the corresponding period in 2018. This was mainly the result of the following:

Retail revenue from our Sheik Zayed Road store in Dubai continues to be weak, with 25% decline in revenue compared to the nine-month period in last year. This has been in some part due to the weakness of the Dubai retail market as a result of the introduction of the value-added tax in 2018. A number of customers coming to our Sheik Zayed Road store were ultimately handled through our corporate sales due to the complexity of their requirements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In late August 2018, we launched a new retail store in Al Wasl Road, Dubai which targets a different customer base and aims to increase both our retail and corporate sales revenue. We have also relocated our Dubai regional office to this new location which improves our ability to serve our residential and corporate customer bases. In line with the Group's strategy to enhance our design consultancy services we have included a design centre at this location. Sales from Al Wasl Road store since its opening accounted for only HK\$516,000. We expect the retail store and design centre will need time to pick up and contribute revenue.

In Hong Kong, we saw the same store sales revenue was almost equal to the same period last year. This is despite a drop in our Shatin store sales of HK\$1.5 million versus same period last year which was mainly due to the renovation and downsizing of the store in line with our new rental contract that took place in August.

Sales at our new Yuen Long store opened in May 2018 continued to pick up in the third quarter, but it would take a longer time than expected to realise its full potential as we develop more brand awareness within the local market segment.

The progress of certain corporate sales projects were delayed due to Typhoon Mangkhut which hit Hong Kong in mid-September this year. However, we expect to see these revenues accounted for in the fourth quarter instead.

The revenue from the Furniture Rental decreased by approximately 13.0% from approximately HK\$20.9 million for the nine months ended 30 September 2017 to approximately HK\$18.2 million in the corresponding period in 2018.

The fall in demand for Furniture Rental coupled with the expiring rental contracts from 2016 continues to impact our revenue as previously anticipated.

The revenue from the Projects business decreased by approximately 20.9% from approximately HK\$41.5 million for the nine months ended 30 September 2017 to approximately HK\$32.8 million in the corresponding period in 2018.

The decrease in Projects business in the Dubai and Shanghai markets has been as a result of not securing sufficiently large size projects similar to the same period in the previous year. This has been in part offset by an increase in projects in Hong Kong and highlights the contract nature of Projects business.

Our pipeline for the fourth quarter remains positive but there are always conditions out of our control such as site readiness and changes to timing of our customers' property launches which may potentially impact the timing of recognition of these sales.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

We continue to be reliant on the performance of the property market in Hong Kong and we believe the recent vacancy tax has been beneficial to our Projects business as developers seek to find furniture solutions to quickly improve occupancy.

Gross Profit

Our gross profit varied principally as a result of the composition of the revenues of our Furniture Sales, Furniture Rental and Projects businesses, changing conditions of the markets and their effects on product pricing, product mix and our cost of sales. Generally the gross profit margins of our Furniture Sales and Furniture Rental businesses are higher than the gross profit margin of the Projects business due to the provision of design and styling and custom furniture in the latter, which require more resources.

The gross profit of the Group decreased HK\$4.2 million or 3.7% from approximately HK\$113.3 million for the nine months ended 30 September 2017 to approximately HK\$109.1 million for the corresponding period in 2018. The fall in gross profit was in line with the decrease in turnover.

Selling and Distribution Costs

Our selling and distribution costs comprise mainly staff cost of sales teams, staff commission, advertising and promotion, transportation and delivery costs, credit card commission, agency fees and others.

The Group's selling and distribution costs increased by approximately 7.2% from approximately HK\$38.2 million for the nine months ended 30 September 2017 to approximately HK\$40.9 million in the corresponding period in 2018.

This increase of HK\$2.7 million was mainly the result of the surge in sales-related staff costs (HK\$1.4 million) and marketing, transportation and delivery expenses (HK\$0.6 million), in a view to drive our online and B2B business strategy as well as the launch of our new stores in Hong Kong and Dubai during the period.

The Hong Kong retail salaries package was revised in June 2018 to increase the basic salaries but reduce the commission amount, in order to ensure our package is competitive in the market. In China, we have strengthened our sales team by employing additional salespersons, including an in-house e-commerce staff.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Administrative and other operating expenses

Our administrative and other operating expenses comprise mainly staff cost (other than the sales teams), rental and related expenses, depreciation on property, plant and equipment (other than those relating to the furniture for rental), staff benefits and others. Such expenses increased by approximately 15.4% from approximately HK\$71.6 million for the nine months ended 30 September 2017 to approximately HK\$82.6 million in the corresponding period in 2018. This increase is mainly the result of

- (i) the growth in staff costs (other than sales teams) of approximately HK\$4.7 million to recruit additional staff with the necessary skills and knowledge to achieve our planned expansion and implement our strategies. We have also recruited additional manpower in order to meet the additional workload and requirements for Listing (and those after Listing);
- (ii) the increase in rental expenses of approximately HK\$3.3 million related in main part to the opening of our new Yoho Mall store in Yuen Long, Hong Kong and Al Wasl Road, Dubai, together with the rent increases upon renewal of leases; and
- (iii) the increase in professional expenses of approximately HK\$1.6 million which included service fees on hiring new employees, their visa applications and renewal of contracts in Dubai, public relations fees on the Listing (which are not treated as Listing expenses) and professional fees for post Listing compliance.

Listing expenses

The Company started the preparation work for the Listing in the second quarter of 2017. For the nine months ended 30 September 2017, we incurred Listing expenses of approximately HK\$4.6 million, compared to corresponding period in 2018 of approximately HK\$11.6 million.

Use of proceeds

There is no change to the Company's use of proceeds as disclosed in the "Use of Proceeds" section of the Company's Interim Report 2018, in which the Company intends to (i) apply approximately HK\$29.3 million to expand our retail network by opening additional retail stores; (ii) apply approximately HK\$4.0 million to enhance our online shop and our information technology capability; (iii) apply approximately HK\$5.7 million on recruitment of additional staff; (iv) apply approximately HK\$1.6 million on recruitment for our planned new retail stores; (v) apply approximately HK\$5.2 million to increase our inventory; and (vi) apply approximately HK\$4.2 million on general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Loss for the period

Loss attributable to equity shareholders of the Company for the nine months ended 30 September 2018 amounted to approximately HK\$24.0 million (nine months ended 30 September 2017: loss of approximately HK\$0.4 million).

The increase in loss was mainly attributable to the net effects of (i) the decrease in gross profit; (ii) the increase of selling and distribution costs and administrative and other operating expenses as mentioned above; and (iii) non-recurring Listing expenses of approximately HK\$11.6 million incurred during the nine months ended 30 September 2018, compared to only approximately HK\$4.6 million in the corresponding period in 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 September 2018, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in the Shares

Name	Capacity/ Nature of Interest	Number of Shares held <i>(note 1)</i>	Number of share options granted	Total	Percentage of Shareholding <i>(note 2)</i>
Mr. John Warren McLennan	Interest in a controlled corporation and interest held jointly with other persons <i>(note 3)</i>	634,500,000 (L)	-	634,500,000	63.45%
Mrs. Jennifer Carver McLennan	Interest of spouse <i>(note 4)</i>	634,500,000 (L)	-	634,500,000	63.45%
Ms. Tracy-Ann Fitzpatrick	Interest in a controlled corporation and interest held jointly with other persons <i>(note 3)</i>	634,500,000 (L)	-	634,500,000	63.45%
Ms. Mok Lai Yin Fiona <i>(note 5)</i>	Beneficial interests	-	9,980,000	9,980,000	1.00%

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the ordinary shares of the Company (the “Shares”).
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 30 September 2018 (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Company’s share option scheme, as detailed in the paragraph headed “Share Option Scheme” below).
- (3) Double Lions is owned as to 40.48% by Mr. John Warren McLennan, 20.00% by Ms. Tracy-Ann Fitzpatrick, 14.88% by Ms. Alison Siobhan Bailey, 14.88% by Mr. John Martin Rinderknecht and 9.76% by Mr. James Seymour Dickson Leach (collectively, with Double Lions, the “Controlling Shareholders”). Each of the Controlling Shareholders executed the deed of confirmation dated 12 February 2018 confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions.
- (4) Mrs. Jennifer Carver McLennan is the spouse of Mr. John Warren McLennan and is deemed to be interested in the Shares held by Mr. John Warren McLennan by virtue of the SFO.
- (5) Share options were granted by the Company to an executive Director, Ms. Mok Lai Yin Fiona pursuant to a share option scheme of the Company. The details are set out under “Share Options Scheme” of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 September 2018, the register of substantial shareholders required to be kept under section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives:

Name	Capacity/ Nature of Interest	Number of Shares held <i>(note 6)</i>	Percentage of Shareholding <i>(note 2)</i>
Double Lions	Beneficial interest	634,500,000 (L)	63.45%
Mr. David Frances Bulbeck	Interest of spouse <i>(note 3)</i>	634,500,000 (L)	63.45%
Ms. Alison Siobhan Bailey	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 4)</i>	634,500,000 (L)	63.45%
Mr. James Seymour Dickson Leach	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 4)</i>	634,500,000 (L)	63.45%
Mr. John Martin Rinderknecht	Interest in a controlled corporation and interest held jointly with other persons <i>(note 1)</i>	634,500,000 (L)	63.45%
Great Metro Limited	Beneficial interest	75,075,000 (L)	7.51%
Kwan Hoi Wang	Interests in controlled corporations <i>(note 5)</i>	90,425,000 (L)	9.04%

Notes:

- (1) Double Lions is owned as to 40.48% by Mr. John Warren McLennan, 20.00% by Ms. Tracy-Ann Fitzpatrick, 14.88% by Ms. Alison Siobhan Bailey, 14.88% by Mr. John Martin Rinderknecht and 9.76% by Mr. James Seymour Dickson Leach executed the deed of confirmation dated 12 February 2018 confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 30 September 2018 (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Company's share option scheme, as detailed in the paragraph headed "Share Option Scheme" below).
- (3) Mr. David Frances Bulbeck is the spouse of Ms. Tracy-Ann Fitzpatrick and is deemed to be interested in the Shares held by Ms. Tracy-Ann Fitzpatrick by virtue of the SFO.
- (4) Ms. Alison Siobhan Bailey and Mr. James Seymour Dickson Leach are married to each other and each of them is deemed to be interested in the Shares held by her/his spouse via Double Lions by virtue of the SFO.
- (5) Mr. Kwan Hoi Wang is interested in the entire issued share capital of Great Metro Limited. Mr. Kwan Hoi Wang is deemed to be interested in the Shares held by Great Metro Limited by virtue of the SFO.
- (6) The letter "L" denotes the entity/person's long position in the shares of the Company.

Save as disclosed above, as at Listing Date and up to the date of this report, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIVIDEND

On 4 January 2018, the Company paid HK\$26.3 million to the then sole shareholder, Double Lions.

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company and was effective on 19 June 2018. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of on which this Scheme becomes unconditional. Since the adoption of the Share Option Scheme, a total of 45,000,000 share options were granted on 30 August 2018. The grantees are entitled, subject to the terms and conditions of the grant and upon exercise, to subscribe a total of 45,000,000 ordinary shares in the

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

share capital of the Company. Details of the share options movement during nine months ended 30 September 2018 under the Share Option Scheme are as follows:

Name of category	Date of grant of share options	Number of share options					Balance as at 30 September 2018	Validity period	Exercise price (HK\$)
		Balance as at		Exercise during the period	Lapsed during the period	Cancelled during the period			
		1 January 2018	Grant during the period						
Director									
Mok Lai Yin Fiona	30 August 2018	-	9,980,000	-	-	-	9,980,000	(Note a) (Note b)	0.220
Employees and others	30 August 2018	-	35,020,000	-	-	-	35,020,000	(Note a) (Note b)	0.220
Total		-	45,000,000	-	-	-	45,000,000		

Notes:

a) Vesting period:

- (i) up to 33% of the share options are exercisable from 18 July 2019 to 17 July 2022;
- (ii) up to 66% of the share options are exercisable from 18 July 2020 to 17 July 2022; and
- (iii) all the remaining share options are exercisable from 18 July 2021 to 17 July 2022.

b) Validity period of share options: From 18 July 2019 to 17 July 2022

The fair values of share options granted on 30 August 2018 ranges from approximately HK\$0.119 to approximately HK\$0.137 per option, which are calculated using a Binominal Option Pricing Model by an independent valuer, Flagship Appraisals and Consulting Limited, with the following key inputs:

Share price at the Date of Grant	HK\$0.22
Exercise price	HK\$0.22
Expected volatility	51.10%
Risk-free interest rate	2.15%
Expected dividends	Nil
Voluntary exercise boundary multiple	N/A

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the nine months ended 30 September 2018 were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard of Dealings"). Having made specific enquiry of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings throughout the period from the date of Listing to the date of this report, and the Company was not aware of any non-compliance with such Required Standard of Dealings and its code of conduct regarding securities transactions by Directors during such period.

COMPETING INTERESTS

As at the date of this report, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the Controlling Shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

INTERESTS OF THE COMPLIANCE ADVISER

As at the date of this report, neither Altus Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the GEM Listing Rules. The audit committee consists of three independent non-executive Directors, namely Ms. Elaine June Cheung, who has the appropriate accounting and financial related management expertise and serves as the chairperson of the audit committee, Ms. Li Yan Yan and Mr. Roderick Donald Nichol. The financial information in this report has not been audited by the auditor of the Company, but the audit committee has reviewed this report and has provided advice and comments thereon.

CORPORATE GOVERNANCE

Pursuant to Rules 17.22, and 17.24 of the GEM Listing Rules, the Company has complied with and does not have advances to any entity nor advances to affiliated companies. In addition, pursuant to Rule 17.23 of the GEM Listing Rules, the major shareholders of the Company have not pledged of the shares of the Company.

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules and to the best knowledge of the Board, the Company had complied with the code provisions of the CG Code.

By Order of the Board

Pacific Legend Group Limited

Tracy-Ann Fitzpatrick

Executive Director, Vice-Chairperson and Chief Executive Officer

Hong Kong, 9 November 2018

As at the date of this report, the Board comprises Mr. John Warren McLennan, Ms. Tracy-Ann Fitzpatrick and Ms. Mok Lai Yin Fiona as executive Directors; Mrs. Jennifer Carver McLennan as non-executive Director; and Ms. Li Yan Yan, Ms. Elaine June Cheung and Mr. Roderick Donald Nichol as independent non-executive Directors.