

# PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands  
with limited liability)

Stock Code: 8547



2019 FIRST QUARTERLY REPORT

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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](http://www.pacificlegendgroup.com).*



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## FINANCIAL HIGHLIGHTS

- The unaudited revenue of the Group amounted to approximately HK\$67.8 million for the three months ended 31 March 2019, representing an increase of approximately HK\$5.0 million or 8.0% as compared with the revenue of approximately HK\$62.8 million for the three months ended 31 March 2018.
- The unaudited loss of the Group after tax was approximately HK\$5.3 million for the three months ended 31 March 2019 as compared to a loss of approximately HK\$6.4 million for the three months ended 31 March 2018.
- Basic and diluted loss per share were both 0.53 Hong Kong cents for the three months ended 31 March 2019 compared to basic and diluted loss per share of 0.85 Hong Kong cents for the three months ended 31 March 2018.
- No interim dividend is recommended by the Board for the three months ended 31 March 2019.

## UNAUDITED FIRST 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 ended 31 March 2019 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	Three months ended 31 March	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Revenue</b>	4	<b>67,762</b>	62,759
Cost of sales		<b>(28,335)</b>	(25,049)
<b>Gross profit</b>		<b>39,427</b>	37,710
Other income and gains	5	<b>260</b>	1,149
Selling and distribution costs		<b>(14,893)</b>	(12,067)
Administrative and other operating expenses		<b>(29,512)</b>	(26,812)
Listing expenses		<b>–</b>	(6,199)
<b>Loss from operation</b>		<b>(4,718)</b>	(6,219)
Finance costs	6(a)	<b>(505)</b>	–
<b>Loss before taxation</b>	6	<b>(5,223)</b>	(6,219)
Income tax expense	7	<b>(45)</b>	(181)

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

FOR THE THREE MONTHS ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	Three months ended 31 March	
		2019 <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Unaudited)
Loss for the period attributable to equity shareholders of the Company		<b>(5,268)</b>	(6,400)
<b>Other comprehensive income</b>			
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>118</u>	<u>178</u>
<b>Total comprehensive loss for the period attributable to equity shareholders of the Company</b>		<b><u>(5,150)</u></b>	<b><u>(6,222)</u></b>
		<b>HK cents</b>	HK cents
<b>Loss per share</b>			
Basic and diluted	8	<b><u>(0.53)</u></b>	<b><u>(0.85)</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at 1 January 2018 (audited)	779	-	-	128	10	101,900	102,817
Loss for the period	-	-	-	-	-	(6,400)	(6,400)
Other comprehensive income	-	-	-	178	-	-	178
Total comprehensive loss for the period	-	-	-	178	-	(6,400)	(6,222)
Dividends ( <i>note 9</i> )	-	-	-	-	-	(26,250)	(26,250)
Increase in share capital	10,000	-	-	-	-	-	10,000
Effect of reorganisation	(779)	-	-	-	779	-	-
Balance at 31 March 2018 (unaudited)	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>306</u>	<u>789</u>	<u>69,250</u>	<u>80,345</u>
Balance at 1 January 2019 (audited)	10,000	67,136	1,234	155	789	58,282	137,596
Loss for the period	-	-	-	-	-	(5,268)	(5,268)
Other comprehensive income	-	-	-	118	-	-	118
Total comprehensive loss for the period	-	-	-	118	-	(5,268)	(5,150)
Equity settled share-based payments transaction	-	-	895	-	-	-	895
Balance at 31 March 2019 (unaudited)	<u>10,000</u>	<u>67,136</u>	<u>2,129</u>	<u>273</u>	<u>789</u>	<u>53,014</u>	<u>133,341</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

Pacific Legend Group Limited (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’s shares have been listed on GEM of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 18 July 2018.

The Company and its subsidiaries (together the “**Group**”) is principally engaged in the sale of home furniture and accessories, leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings.

At 31 March 2019, the Directors consider the immediate and ultimate holding company to be Double Lions Limited, which is incorporated in the British Virgin Islands (the “**BVI**”).

## 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 audited consolidated financial information for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the HKICPA, as included in the Company’s 2018 Annual Report.

The significant accounting policies that have been used in the preparation of these unaudited consolidated financial statements have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of the unaudited consolidated financial statements of the Group for the relevant period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group’s accounting policies.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

The HKICPA has issued the following new HKFRSs, amendments to HKFRSs and interpretations that are first effective for the current accounting period of the Group:

HKFRS 16	Leases
HK (IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-Term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

The following new HKFRS is relevant to the Group's consolidated financial statements:

#### **HKFRS 16 “Leases”**

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivables;
- variable lease payments that depend on an index or a rate, initially measured using index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES (CONTINUED)

#### HKFRS 16 “Leases” (Continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The Group has not applied any new standard of interpretation that is not yet effective for the current accounting period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 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.

#### **Segment revenue and results**

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the three months ended 31 March 2019

	Sale of home furniture and accessories <i>HK\$'000</i> (Unaudited)	Rental of home furniture and accessories <i>HK\$'000</i> (Unaudited)	Project and hospitality services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue				
– external customers	<u>45,816</u>	<u>4,777</u>	<u>17,169</u>	<u>67,762</u>
Segment results	<u>27,228</u>	<u>4,039</u>	<u>8,160</u>	39,427
Other income and gains				260
Selling and distribution costs				(14,893)
Administrative and other operating expenses				(29,512)
Finance costs				<u>(505)</u>
Loss before taxation				<u>(5,223)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the three months ended 31 March 2018

	Sale of home furniture and accessories <i>HK\$'000</i> (Unaudited)	Rental of home furniture and accessories <i>HK\$'000</i> (Unaudited)	Project and hospitality services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue				
– external customers	46,491	6,290	9,978	62,759
Segment results	28,364	4,906	4,440	37,710
Other income and gains				1,149
Selling and distribution costs				(12,067)
Administrative and other operating expenses				(26,812)
Listing expenses				(6,199)
Loss before taxation				(6,219)

There was no inter-segment revenue for three months ended 31 March 2019 and 31 March 2018.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### Geographical information

##### *Revenue from external customers*

	Three months ended 31 March	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong	54,284	45,943
United Arab Emirates (the "UAE")	10,943	12,472
The People's Republic of China (excluding Hong Kong and Macao, the "PRC")	2,535	4,344
	<u>67,762</u>	<u>62,759</u>

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

### 5. OTHER INCOME AND GAINS

	Three months ended 31 March	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	20	8
Interest income from finance leases	45	58
Net exchange gains	97	876
Income from franchising	–	196
Sundry income	98	11
	<u>260</u>	<u>1,149</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Three months ended 31 March	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
<b>(a) Finance costs:</b>		
Interest on short-term loans	44	–
Interest on right-of-use	461	–
	<u>505</u>	<u>–</u>
<b>(b) Staff costs:</b>		
Salaries, allowances and commissions	19,230	16,822
Share-based payment expenses	895	–
Retirement benefits scheme contributions	878	754
	<u>21,003</u>	<u>17,576</u>
<b>(c) Other items:</b>		
Auditors' remuneration	255	130
Cost of inventories recognised as expense	27,659	24,257
Depreciation on property, plant and equipment	1,591	1,703
Depreciation on right-of-use	8,503	–
Operating lease rentals in respect of rented premises		
– Minimum lease payments	389	8,121
– Contingent rent	45	53
	<u>38,832</u>	<u>34,264</u>

## 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:

	<b>Three months ended 31 March</b>	
	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<hr/>		
<b>Current tax – provision for the period</b>		
Hong Kong Profits Tax	<b>45</b>	181
PRC Enterprise Income Tax	<b>–</b>	–
	<hr/>	<hr/>
	<b>45</b>	181
	<hr/> <hr/>	<hr/> <hr/>

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

The provision for Hong Kong Profits Tax for the three months ended 31 March 2019 is calculated at 8.25% (three months ended 31 March 2018: 16.5%) of the first HK\$2,000,000 and 16.5% (2018: 16.5%) of the remaining estimated assessable profit for the period.

The PRC Enterprise Income Tax is calculated at 25% (2018: 25%) of the estimated assessable profits in accordance with relevant rules and regulations in the PRC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to equity shareholders of the Company of HK\$5,268,000 (2017: HK\$6,400,000) and the weighted average of 1,000,000,000 (2018: 750,000,000) ordinary shares in issue.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share has been determined on the assumption that the Reorganisation (as defined in note 1 to the Group's consolidated financial statements for the year ended 31 December 2018 ("2018 Consolidated Financial Statements") in the Company's Annual Report 2018) and the Capitalisation issue (as defined in note 22(a) to 2018 Consolidated Financial Statements) had been effective on 1 January 2018.

No diluted loss per share for the three months ended 31 March 2019 and 2018 respectively was presented as there were no dilutive potential ordinary shares in issue during both periods.

### 9. DIVIDENDS

	<b>Three months ended 31 March</b>	
	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
	<hr/>	<hr/>
Interim dividends	-	26,250
	<hr/> <hr/>	<hr/> <hr/>

These dividends represented dividends declared and paid by the Company prior to the Reorganisation. The rate of dividend per share is not presented as it does not indicate the rate which future dividend will be declared.

The Directors do not recommend the payment of any interim dividend in respect of the three months ended 31 March 2019.

## 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 first quarter of 2019 has been one of challenges and successes for the Group. On the one hand, we have continued to expand our project work in Hong Kong driven by the successful delivery of multiple furniture package projects for property developers. We will continue to develop our project pipeline across all regions. On the other hand, the retail market has been challenging and the Group will continue to monitor the retail market environment and strengthen our competitiveness by improving our design services and product range, and enhancing our online sales capabilities (which included but not limited to search engine optimisation enhancements).

The celebration of our 40th years of operation will be a key driver of our marketing campaign in the upcoming year. With the proceeds from the Listing, we will continue to seek appropriate locations in the mainland China market. Despite the challenges with the retail market environment ahead, we are still confident of our future prospects.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL REVIEW

#### Revenue

The Group's revenue for the three months ended 31 March 2019 (the "First Quarter 2019" or the "Current Quarter") was approximately HK\$67.8 million, representing an increase of HK\$5.0 million or 8.0% as compared with that of the three months ended 31 March 2018 (the "First Quarter 2018" or the "Corresponding Period in 2018") of HK\$62.8 million.

The revenue derived from the Furniture Sales decreased by approximately 1.5% from approximately HK\$46.5 million in the First Quarter 2018 to approximately HK\$45.8 million in the First Quarter 2019. The overall Furniture Sales fell short of our expectations due to the tough market conditions.

In Hong Kong, the same store sales (which excluded those stores opened after First Quarter 2018) revenue dropped from HK\$21.9 million in the First Quarter 2018 to HK\$18.9 million for the First Quarter 2019. This was mainly attributable to a drop in our Shatin store sales of HK\$1.0 million as compared to the First Quarter 2018 which was mainly due to the downsizing of the store, in line with our new rental contract that took place in August 2018, along with the closure of our Horizon Plaza Discount store at the end of 2018. Most of our locations also saw a drop in overall footfall which impacted on sales.

Such shortfall was fully offset by our new store in Yuen Long (opened in May 2018) and our Sonder Living@Indigo operation (commenced business in November 2018). As a result, the overall Hong Kong retail revenue recorded an increase of 2.2% to HK\$22.4 million.

Retail revenue from our Sheikh Zayed Road store in Dubai, the UAE has weakened, with 47.2% decline in revenue in the First Quarter 2019 as compared to the Corresponding Period in 2018. This has been in some part due to the weak performance of the Dubai retail market and this store was used to actively clear stock at a discounted rate. Such decline has been compensated by the sales amount derived from the new Al Wasl Road store from predominantly new customers, leading to an overall increase of 34.4% in retail stores sales.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Our Group's online business continued to grow, with an increase of 16.5% compared to the Corresponding Period in 2018.

Dubai corporate sales in the First Quarter 2019 appeared weak compared to the Corresponding Period in 2018 as a result of the difference in timing of delivery of the projects. However, new business is under way and we expect a better performance for the Dubai corporate sales in the second quarter of 2019 when these sales are completed.

The Group's franchise business in Saudi Arabia recorded sales revenue of HK\$2.1 million in the First Quarter 2019, doubled from HK\$1.0 million in the Corresponding Period in 2018 because of the increase in demand of our products by our Saudi Arabia franchisee.

The revenue from the Furniture Rental decreased by approximately 24.1% from approximately HK\$6.3 million in the First Quarter 2018 to approximately HK\$4.8 million in the First Quarter 2019. The fall in revenue from the Furniture Rental was mainly due to the completion of lease periods for rental contracts from 2016 and 2017, without being sufficiently replaced with new contracts.

The revenue from the Projects business increased by approximately 72.1% from approximately HK\$10.0 million in the First Quarter 2018 to approximately HK\$17.2 million in the First Quarter 2019. This is mainly due to an increase in revenue derived from projects in Hong Kong, with a significant project achieving 80% completion in the First Quarter 2019.

The vacancy tax established in 2018 in the Hong Kong market has continued to be beneficial to our Projects business as developers seek to find furniture solutions to quickly improve occupancy.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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 market conditions and their effects on product pricing, product mix and our cost of sales. Overall the gross profit margins of our Furniture Sales (except franchise) 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.

The gross profit of the Group increased by HK\$1.7 million or 4.6% from approximately HK\$37.7 million in the Corresponding Period in 2018 to HK\$39.4 million in the First Quarter 2019. We saw a 1.9% decline in overall gross profit percentage due to a relatively high portion of Project & Franchise business which operates on a lower margin pricing strategy, together with the decline in corporate sales and rental revenue, which both have a higher gross profit margin.

### Selling and Distribution Costs

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

The Group's selling and distribution costs increased by approximately 23.4% from approximately HK\$12.1 million in the First Quarter 2018 to approximately HK\$14.9 million in the First Quarter 2019.

This increase of HK\$2.8 million was mainly the result of the surge in sales-related staff costs of HK\$1.2 million, predominantly accounted for by the new store operations, and transportation and delivery expenses of HK\$1.1 million, which is in part due to the increasing outsourcing of more deliveries instead of in-house and the impact of renegotiation to fixed contracts to ensure supply during peak times.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Administrative and other operating expenses

Our administrative and other operating expenses comprised 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 Rental business), depreciation on right-of-use, staff benefits and others. Such expenses increased by approximately 10.1% from approximately HK\$26.8 million in the First Quarter 2018 to approximately HK\$29.5 million in the First Quarter 2019. This increase was mainly the result of

- (i) the increase in staff costs (other than sales teams) of approximately HK\$2.3 million includes share-based payments of HK\$0.9 million relating to share options granted to employees, and some salary increments due to general salary increases and promotions of employees within the First Quarter 2019. We also see some impact of additional staff employed after First Quarter 2018 with the necessary skills and knowledge to implement our strategies and planned expansion;
- (ii) an increase in rental expenses of approximately HK\$0.8 million related mainly to the opening of our new stores in Yuen Long, Hong Kong and Al Wasl Road, Dubai, net the impact of the downsizing of the Shatin store and closure of the Horizon Plaza Discount store.

### Listing expenses

There was a Listing expenses of HK\$6.2 million in the First Quarter 2018 as the Company was then in the process of Listing application. Such expenses were non-recurring in 2019 as the Company had been listed in July 2018.

### Finance costs

No finance cost was booked in the First Quarter 2018 as the Group did not have any bank loan during that period. The Group started using import loan financing since the second quarter of 2018, and incurred bank interest expenses of approximately HK\$44,000 in the First Quarter 2019.

Following the application of Hong Kong Financial Reporting Standard 16 “Leases” (effective on 1 January 2019), approximately HK\$461,000 was recognised in the First Quarter 2019 as interest expenses on the remaining balance of the net present value of the aggregate lease payments in respect of the leases of certain premises, which the Group has entered into as a lessee.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Loss for the period

Loss attributable to equity shareholders of the Company for the Current Quarter amounted to approximately HK\$5.3 million (First Quarter 2018: a loss of approximately HK\$6.4 million which also included the Listing expenses).

The loss in the First Quarter 2019 was mainly attributable to the net effects of (i) the decline in corporate sales and rental revenues; and (ii) the increase of selling and distribution costs and administrative and other operating expenses as mentioned above.

### Use of Proceeds

The Company intends to utilise the net proceeds as disclosed in the “Future Plans and Use of Proceeds” section of the prospectus of the Company dated 29 June 2018 (the “Prospectus”), based on the net proceeds from the share offer of approximately HK\$48.5 million upon the Listing Date.

	Net proceeds to be applied <i>HK\$'000</i>	Approximate percentage of the proceeds %	Amount utilised up to 31 March 2019 <i>HK\$'000</i>	Unutilised amount up to 31 March 2019 <i>HK\$'000</i>
Expand our retail network by opening additional retail stores	28,382	58.6%	-	28,382
Enhance our online shop and our information technology capability	3,893	8.0%	629	3,264
Recruitment of additional staff	5,545	11.4%	1,492	4,053
Recruitment for our planned new retail stores	1,556	3.2%	-	1,556
Increasing our inventory	5,056	10.4%	2,173	2,883
General working capital	4,043	8.4%	4,043	-
	<u>48,475</u>	<u>100.0%</u>	<u>8,337</u>	<u>40,138</u>

## 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 the date of 31 March 2019, 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:

#### (i) Long position in the shares of the Company (the "Shares")

Name	Capacity/ Nature of Interest	Number of Shares held	Number of share options granted <i>(note 1)</i>	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	-	634,500,000	63.45%
Mrs. Jennifer Carver MCLENNAN	Interest of spouse <i>(note 4)</i>	634,500,000	-	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	-	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) These share options were granted by the Company under the Company's Share Option Scheme, as defined and detailed in the heading "Share Options Scheme" below).
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 31 March 2019 (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Company's Share Options Scheme, as defined and detailed in the heading "Share Options Scheme" below).
- (3) Double Lions Limited 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 Limited, the "Controlling Shareholders"). Each of the Controlling Shareholders executed the deed of confirmation (the "Deed of AIC") 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 Limited.
- (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 Ms. MOK Lai Yin Fiona pursuant to a Share Option Scheme of the Company, as defined and detailed in the heading "Share Options Scheme" below.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### (ii) Long position in the shares of associated corporations

Name of Directors	Name of associated corporation	Nature of interest	Number of shares in our associated corporation held	Approximate percentage of shareholding in our associated corporation
Mr. John Warren MCLENNAN	Double Lions Limited	Beneficial interest and interest held jointly with other persons <i>(note 1)</i>	2,530	40.48%
Ms. Tracy-Ann FITZPATRICK	Double Lions Limited	Beneficial interest and interest held jointly with other persons <i>(note 1)</i>	1,250	20.00%
Mrs. Jennifer Carver MCLENNAN	Double Lions Limited	Interest of spouse <i>(note 2)</i>	2,530	40.48%

*Notes:*

- (1) Double Lions Limited 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. By virtue of acting in concert arrangement as documented and confirmed under the Deed of AIC, each of Mr. John Warren MCLENNAN, Ms. Tracy-Ann FITZPATRICK, Ms. Alison Siobhan BAILEY, Mr. John Martin RINDERKNECHT and Mr. James Seymour Dickson LEACH is deemed to be interested in the entire issued shares of Double Lions Limited under the SFO. Mr. John Warren MCLENNAN, Ms. Tracy-Ann FITZPATRICK and Ms. Alison Siobhan BAILEY are directors of Double Lions Limited.
- (2) Mrs. Jennifer Carver MCLENNAN is the spouse of Mr. John Warren MCLENNAN and is deemed to be interested in the shares of Double Lions Limited held by Mr. John Warren MCLENNAN by virtue of the SFO.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2019, 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 Limited	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	69,075,000 (L)	6.91%
Mr. KWAN Hoi Wang	Interests in controlled corporations <i>(note 5)</i>	87,775,000 (L)	8.78%

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

*Notes:*

- (1) Double Lions Limited 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 Limited, the “Controlling Shareholders”). Each of the Controlling Shareholders executed the Deed of AIC confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions Limited.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 31 March 2019 (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 defined and detailed in the heading “Share Options 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 Limited 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.

Save as disclosed above, from 1 January 2019 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### DIVIDEND

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

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2019.

### SHARE OPTION SCHEME

#### (a) Share option scheme adopted by the Company

Pursuant to the written resolution of the shareholders of the Company on 19 June 2018, the Company adopted a share option scheme (the “Share Option Scheme”) for the purpose of granting options to eligible participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the board of Directors may at their discretion grant options to full-time or part-time employees, including executive Directors, non-executive Directors and independent non-executive Directors, consultants or advisers of the Group. The offer of a grant of share options may be accepted by the grantee within 28 days from the date of the offer, upon payment of HK\$1 by way of consideration for the grant. Each share option gives the holder of the right to subscribe for one ordinary Share in the Company and is settled gross in Shares.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of Shares which may be issued upon exercise of all options to be granted under Share Option Scheme and any other share option schemes of the Company must not exceed 100,000,000 Shares, being the scheme mandate limit. The board of Directors may seek approval by the shareholders of the Company in a general meeting to renew the scheme mandate limit, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

The total number of Shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme and other schemes (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue from time to time.

The exercise price of share options is the highest of (i) the nominal value of the Shares; (ii) the closing price of the Shares on the Stock Exchange on the date of offer; and (iii) the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of offer. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Share Option Scheme (19 June 2018).

### (b) The terms and conditions of the share options existing as at 31 March 2019:

On 30 August 2018, a total of 45,000,000 share options under this Share Option Scheme was granted. The details of such share options and their movement during the three months ended 31 March 2019 are as follows:

	Number of share options at 1 January 2019 and 31 March 2019	Exercise price <i>HK\$</i>
Options granted to Ms. MOK Lai Yin Fiona, a Director of the Company, with exercise period:		
– 18 July 2019 to 17 July 2022	3,293,400	0.22
– 18 July 2020 to 17 July 2022	3,293,400	0.22
– 18 July 2021 to 17 July 2022	3,393,200	0.22
Options granted to employees and consultants, with exercise period:		
– 18 July 2019 to 17 July 2022	11,556,600	0.22
– 18 July 2020 to 17 July 2022	11,556,600	0.22
– 18 July 2021 to 17 July 2022	11,906,800	0.22
	<b>45,000,000</b>	

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

During the three months ended 31 March 2019, no share options were issued, cancelled or lapsed. The number of share options outstanding as at 31 March 2019 was 45,000,000, including as at stated above, all these share options have exercise period commencing after 31 March 2019.

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Fair value at measurement date	HK\$0.119- HK\$0.137
Closing price of the Share on the date of grant	HK\$0.22
Exercise price	HK\$0.22
Expected volatility (expressed as weighted average volatility used in the modelling under binomial tree model)	51.10%
Option life (expressed as weighted average life used in the modelling under binomial tree model)	3.88 years
Expected dividends	0%
Risk-free interest rate (based on Hong Kong Exchange fund notes)	2.15%

The binomial tree method has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the best estimate of Directors' of the Company. The value of an option varies with different variables of certain subjective assumptions.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)**

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed above, at no time during the three months ended 31 March 2019 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 three months ended 31 March 2019, 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 1 January 2019 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, 10 May 2019

*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.*