

PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands
with limited liability)

Stock Code: 8547



2019 THIRD 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.



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FINANCIAL HIGHLIGHTS

- The unaudited revenue of the Group amounted to approximately HK\$208.8 million for the nine months ended 30 September 2019, representing an increase of approximately HK\$28.7 million or 15.9% as compared with the revenue of approximately HK\$180.1 million for the nine months ended 30 September 2018.
- The unaudited loss of the Group after tax was approximately HK\$13.4 million for the nine months ended 30 September 2019 as compared with a loss of approximately HK\$24.0 million for the nine months ended 30 September 2018.
- Basic and diluted loss per share were both 1.34 Hong Kong cents for the nine months ended 30 September 2019 compared with the basic and diluted loss per share of 2.94 Hong Kong cents for the nine months ended 30 September 2018.
- No interim dividend is recommended by the Board for the nine months ended 30 September 2019.

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 2019 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 2019

(Expressed in Hong Kong dollars)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000	2019 HK\$'000 (Unaudited)	2018 HK\$'000
Revenue	4	82,412	60,915	208,752	180,054
Cost of sales		(34,801)	(23,477)	(86,665)	(70,990)
Gross profit		47,611	37,438	122,087	109,064
Other income and gains	5	675	603	2,135	2,187
Selling and distribution costs		(16,425)	(13,960)	(46,473)	(40,941)
Administrative and other operating expenses		(28,998)	(28,666)	(89,131)	(82,583)
Listing expenses		-	(2,372)	-	(11,587)
Profit/(loss) from operations		2,863	(6,957)	(11,382)	(23,860)
Finance costs		(619)	(59)	(1,791)	(66)
Profit/(loss) before taxation	6	2,244	(7,016)	(13,173)	(23,926)
Income tax expense	7	(97)	(32)	(263)	(113)

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

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2019

(Expressed in Hong Kong dollars)

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2019	2018	2019	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)		(Unaudited)	
Profit/(loss) for the period attributable to equity shareholders of the Company		2,147	(7,048)	(13,436)	(24,039)
Other comprehensive income/(loss)					
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>203</u>	(18)	<u>212</u>	187
Total comprehensive income/(loss) for the period attributable to equity shareholders of the Company		<u>2,350</u>	(7,066)	<u>(13,224)</u>	(23,852)
Dividends paid	8	<u>–</u>	–	<u>–</u>	(26,250)
Earnings/(loss) per share					
Basic and diluted (<i>HK Cents</i>)	9	<u>0.22</u>	(0.74)	<u>(1.34)</u>	(2.94)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Share option reserve	Exchange reserve	Other reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2018 (audited)	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)
Dividends paid (note 8)	-	-	-	-	-	(26,250)	(26,250)
Effect of reorganisation	(779)	-	-	-	779	-	-
Issue of new shares	2,500	82,500	-	-	-	-	85,000
Capitalisation issue	7,500	(7,500)	-	-	-	-	-
Expense attributable to issue of new shares	-	(7,864)	-	-	-	-	(7,864)
Balance at 30 September 2018 (unaudited)	<u>10,000</u>	<u>67,136</u>	<u>-</u>	<u>315</u>	<u>789</u>	<u>51,611</u>	<u>129,851</u>
Balance at 1 January 2019 (audited)	10,000	67,136	1,234	155	789	58,282	137,596
Loss for the period	-	-	-	-	-	(13,436)	(13,436)
Other comprehensive income	-	-	-	212	-	-	212
Total comprehensive income/(loss) for the period	-	-	-	212	-	(13,436)	(13,224)
Equity settled share-based payments transaction	-	-	2,263	-	-	-	2,263
Balance at 30 September 2019 (unaudited)	<u>10,000</u>	<u>67,136</u>	<u>3,497</u>	<u>367</u>	<u>789</u>	<u>44,846</u>	<u>126,635</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 “**Listing**”).

The Company and its subsidiaries (together, the “**Group**”) is principally engaged in the sale of home furniture and accessories, rental of home furniture and accessories and the provision of project and hospitality services.

As at 30 September 2019, the Directors consider the immediate and ultimate holding company of the Group to be Double Lions Limited (“**Double Lions**”), 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	<i>Leases</i>
HK (IFRIC) Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-Term Interests in Associates and Joint Ventures</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015 – 2017 Cycle</i>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES (CONTINUED)

HKFRS 16 “Leases” (Continued)

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES (CONTINUED)

HKFRS 16 “Leases” (Continued)

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

The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for 2018 has not been restated. The right-of-use asset for property lease was measured at the amount equal to the lease liability, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

The reconciliation of operating lease commitment to lease liabilities is set out below:

	<u>HK\$'000</u>
Operating lease commitments disclosed as at 31 December 2018 (audited)	57,672
Lease liabilities discounted at relevant incremental borrowing rates	<u>(3,135)</u>
Lease liabilities as at 1 January 2019 (unaudited)	<u><u>54,537</u></u>
	At 1 January 2019
	<u>HK\$'000</u>
	<u>(Unaudited)</u>
Analysed as	
Current	29,030
Non-current	<u>25,507</u>
	<u><u>54,537</u></u>

The adjustment of the opening balances (affected items only) below results from the initial application of the HKFRS 16 as at 1 January 2019. The prior-year amounts were not adjusted.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES (CONTINUED)

HKFRS 16 “Leases” (Continued)

Consolidated Statement of Financial Position (extracted)

	At 31 December 2018 <i>HK\$'000</i> (Audited)	HKFRS 16 Reclassification <i>HK\$'000</i> (Unaudited)	At 1 January 2019 <i>HK\$'000</i> (Unaudited)
Assets:			
Right-of-use assets	–	54,537	54,537
Liabilities:			
Lease liabilities	–	(54,537)	(54,537)

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

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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)		(Unaudited)	
Segment revenue – external customers				
– Sale of home furniture and accessories	56,908	41,549	139,749	129,099
– Rental of home furniture and accessories	5,911	6,413	15,433	18,154
– Project and hospitality services	19,593	12,953	53,570	32,801
	<u>82,412</u>	<u>60,915</u>	<u>208,752</u>	<u>180,054</u>
Revenue recognition – at a point of time				
– Sale of home furniture and accessories	56,908	41,549	139,749	129,099
over time				
– Rental of home furniture and accessories	5,911	6,413	15,433	18,154
– Project and hospitality services	19,593	12,953	53,570	32,801
	<u>82,412</u>	<u>60,915</u>	<u>208,752</u>	<u>180,054</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	
	2019	2018	2019	2018
	<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	34,890	25,441	85,606	79,803
– Rental of home furniture and accessories	4,924	5,360	12,747	14,648
– Project and hospitality services	7,797	6,637	23,734	14,613
Gross profit	47,611	37,438	122,087	109,064
Other income and gains	675	603	2,135	2,187
Selling and distribution costs	(16,425)	(13,960)	(46,473)	(40,941)
Administrative and other operating expenses	(28,998)	(28,666)	(89,131)	(82,583)
Finance cost	(619)	(59)	(1,791)	(66)
Listing expenses	–	(2,372)	–	(11,587)
Profit/(loss) before taxation	2,244	(7,016)	(13,173)	(23,926)

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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)		(Unaudited)	
Segment revenue – external customers				
– Hong Kong	60,067	45,871	155,112	127,023
– United Arab Emirates (“UAE”)	17,291	8,736	37,388	31,789
– Mainland China (“PRC”)	5,054	6,308	16,252	21,242
	82,412	60,915	208,752	180,054

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)		(Unaudited)	
Bank interest income	132	10	324	28
Interest income from finance leases	39	64	124	184
Sundry income	66	123	206	343
Reversal of provision for bad debts	-	-	-	351
Net exchange gain	-	209	-	661
Income from franchising	438	197	1,481	620
	<u>675</u>	<u>603</u>	<u>2,135</u>	<u>2,187</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)		(Unaudited)	
(a) Finance costs:				
Interest on short-term loans	66	59	189	66
Interest on lease liabilities	553	–	1,602	–
	<u>619</u>	<u>59</u>	<u>1,791</u>	<u>66</u>
(b) Staff costs:				
Salaries, allowances and commissions	20,110	18,143	58,903	53,179
Share-based payment expenses	496	–	2,263	–
Retirement benefits scheme contributions	823	725	2,515	2,329
	<u>21,429</u>	<u>18,868</u>	<u>63,681</u>	<u>55,508</u>
(c) Other items:				
Auditor's remuneration	255	98	763	335
Reversal of allowance for doubtful debts	–	(57)	–	–
Cost of inventories recognised as expense	34,027	22,603	84,409	68,517
Depreciation on property, plant and equipment	1,604	1,811	4,926	5,243
Depreciation on right-of-use assets	7,963	–	24,610	–
Net exchange loss	736	–	1,068	–
Operating lease rentals in respect of rented premises				
– Minimum lease payments	712	10,051	1,777	26,721
– Contingent rent	255	56	417	161
	<u>712</u>	<u>10,051</u>	<u>1,777</u>	<u>26,721</u>
	<u>255</u>	<u>56</u>	<u>417</u>	<u>161</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:

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>	
Current tax – (provision)/credit for the period				
Hong Kong Profits Tax	(97)	(33)	(263)	(100)
PRC Enterprise Income Tax	–	1	–	(13)
	<u>(97)</u>	<u>(32)</u>	<u>(263)</u>	<u>(113)</u>

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 nine months ended 30 September 2019 is calculated at 16.5% (nine months ended 30 September 2018: 16.5%) of the estimated assessable profit for the period.

The PRC Enterprise Income Tax for the nine months ended 30 September 2019 is calculated at 25% (nine months ended 30 September 2018: 25%) of the estimated assessable profits in accordance with relevant rules and regulations in the PRC.

8. DIVIDENDS 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 2019 (nine months ended 30 September 2018: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. EARNINGS/(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\$13,436,000 (nine months ended 30 September 2018: HK\$24,039,000) and the weighted average of 1,000,000,000 (nine months ended 30 September 2018: 818,681,319) 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 nine months ended 30 September 2019 and 30 September 2018 respectively was presented as there were no dilutive potential ordinary shares in issue during both 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 involves designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats).

During the nine months ended 30 September 2019, we have continued to struggle with the global soft retail market as a result of the global economic slowdown that is creating negative consumer sentiment. Such negative sentiment is worse in Hong Kong due to the continuation of the social unrest which began in June 2019 and has continued through the third quarter of 2019, impacting Hong Kong retail performance. In Dubai, although there are signs of some economic recovery in the lead up to Expo 2020, retail consumer spending was still affected by the low oil prices which have led to high unemployment and departure of expatriates.

We did manage to complete a large number of showflats in the third quarter of 2019. However, with the social unrest in Hong Kong, some property developers have pulled back on the number and scope of furniture projects, and there is a decline in number of showflats in the market as developers have been taking a wait-and-see attitude. While we are hopeful that the unrest will dissipate over time, we do not see a clear resolution any time soon.

Based on the preliminary assessment on the latest management information after September 2019 (which have not been audited, finalised or reviewed by the auditors or the audit committee of the Company), the above-mentioned factors may continue to adversely affect our fourth quarter performance across all businesses and therefore we anticipate that our overall performance for 2019 is likely to be lower than last year (excluding listing expenses).

In the fourth quarter of 2019, we will continue to build our design studio advertising campaign both online and through the media. Revenue generated from the design services has been growing in China and Dubai and has had mixed performance in Hong Kong. We have finalised our China online strategy and will be working with marketing experts to ensure our investment has the highest chance of success.

We are continuing to explore new opportunities to expand our distribution channels. As disclosed in the announcement of the Company dated 28 August 2019, Mr. Zhang Lang has been appointed as the general manager, the director of e-commerce and chief executive officer of Mega Ocean Limited, a wholly-owned subsidiary of the Company. Mr. Zhang will be responsible for the development of our e-commerce platform.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

The Group's revenue for the nine months ended 30 September 2019 (the "YTD Third Quarter 2019") was approximately HK\$208.8 million, representing an increase of HK\$28.7 million or 15.9% as compared with that of the nine months ended 30 September 2018 (the "YTD Third Quarter 2018") of HK\$180.1 million.

The revenue from the Furniture Sales business increased by approximately 8.2% from approximately HK\$129.1 million in YTD Third Quarter 2018 to approximately HK\$139.7 million in YTD Third Quarter 2019. The improvement in performance in Furniture Sales was mainly attributable to completion of a number of showflats by Hong Kong corporate sales, as explained below.

In Hong Kong, the same store (which excluded our new store at Yoho Mall in Yuen Long and Sonder Living @ Indigo operation in Ap Lei Chau, both of which operated less than a whole calendar year, and the discount store in Horizon Plaza which was closed in December 2018) sales revenue dropped from HK\$57.1 million in YTD Third Quarter 2018 to HK\$52.2 million for YTD Third Quarter 2019. This was mainly attributable to a drop in the sales of our Shatin store of HK\$3.3 million as compared with that in YTD Third 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. Most of our locations also saw a drop in overall customer footfall which impacted on our sales performance.

Such shortfall was almost fully offset by the revenue generated by our new stores at Yoho Mall in Yuen Long (opened in May 2018) and Sonder Living @ Indigo operation in Ap Lei Chau opened in November 2018). As a result, the overall Hong Kong retail revenue of our Group recorded a slight decrease of HK\$0.3 million to HK\$61.5 million.

The social unrest since June 2019 has seriously affected the shopper traffic in the malls and in the streets. We have had to close certain stores early (or even all day) because of the early closure of MTR services or public processions or assemblies nearby. To mitigate the negative impact of such situations, we have extended our summer sale and strengthened our online promotion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Hong Kong corporate sales, which consists mainly of the sales of showflats furniture to property developers, noted a significant increase in revenue by approximately 65.7%. This was attributable to the fact that developers wanted to fill flats before a proposed vacancy tax becomes effective and completed a number of showflats in the third quarter of 2019. The revenue recognised in YTD Third Quarter 2019 from such showflats has already exceeded that for the first half year of 2019. However, there are some uncertainties in the pipeline for the fourth quarter of 2019, as the social unrest continues and policy measures recently proposed by the Hong Kong SAR Chief Executive regarding residential flats (including but not limited to raising the cap on mortgage loans for the first-time home buyers), which may affect the property developers' strategy and timetable to release their residential units for sale.

Retail revenue from our Sheikh Zayed Road store in Dubai, the UAE was still weak, with 46.3% decline in revenue in YTD Third Quarter 2019 as compared with YTD Third Quarter 2018. This has been in some part due to the weak performance of the Dubai retail market as a result of low oil price which led to high unemployment and departure of expatriates, and that the consumers are more cost conscious in their spending. This store was also used to actively clear stock at a discounted rate. We are pleased to report that such decline has been compensated in full by the sales amount derived from the new Al Wasl Road store from predominantly new customers, leading to an overall increase of 19.4% in retail stores sales.

Our retail store in An Fu Lu, Shanghai also noted a decline in sales of 33.2% as a result of intensified competition in the market from new and expanding brands and the concurrent cooling down of the property market and customer sentiment in spending. In order to remain competitive in the China market and enhance the public awareness of our brand, we have decided to set up another store in Jing An District, Shanghai, which is expected to commence operation in late December 2019.

Our Group's online business continued to grow and noted an increase of 17.6% in revenue as compared with YTD Third Quarter 2018.

Dubai corporate sales in YTD Third Quarter 2019 appeared weak and showed a decline by 38.4% as compared with YTD Third Quarter 2018. Such decline has been narrowed when compared with the first half of the year.

The Group's franchise business in Saudi Arabia recorded a sales revenue of HK\$6.7 million in YTD Third Quarter 2019, showing an increase from the HK\$5.8 million recorded in YTD Third Quarter 2018.

The revenue from the Furniture Rental business decreased by approximately 15.0% from approximately HK\$18.2 million in YTD Third Quarter 2018 to approximately HK\$15.4 million in YTD Third Quarter 2019. The fall in revenue from the Furniture Rental business was mainly due to the completion of lease periods for rental contracts from 2016 and 2017, without being sufficiently replaced with new contracts.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The revenue from the Projects business increased by approximately 63.3% from approximately HK\$32.8 million in YTD Third Quarter 2018 to approximately HK\$53.6 million in YTD Third Quarter 2019. The increase is partly attributable to a significant hospitality project in United States awarded to our Dubai company in 2019, which was partially completed in the third quarter of 2019. The existing furniture package projects in Hong Kong are currently on schedule and should provide steady contribution to the Projects business revenue in the fourth quarter of 2019, barring any unexpected delay in the progress of such projects.

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 services in the latter.

The gross profit of the Group increased by HK\$13.0 million or 11.9% from approximately HK\$109.1 million in YTD Third Quarter 2018 to HK\$122.1 million in YTD Third Quarter 2019. However, we saw a decline in overall gross profit percentage (from 60.6% in YTD Third Quarter 2018 to 58.5% in YTD Third Quarter 2019) due to a relatively high portion of Projects and franchise businesses which operate on a lower margin pricing strategy, together with the decline in retail and rental revenue which both have a higher gross profit margin.

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 13.5% from approximately HK\$40.9 million in YTD Third Quarter 2018 to approximately HK\$46.5 million in YTD Third Quarter 2019.

This increase of HK\$5.5 million in selling and distribution costs was mainly the result of the surge in sales-related staff costs of HK\$3.6 million, predominantly accounted for by the new store operations, and transportation and delivery expenses of HK\$2.1 million, which is in part due to the increase in outsourcing of deliveries 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 assets, staff benefits and others. Such expenses increased by approximately 7.9% from approximately HK\$82.6 million in YTD Third Quarter 2018 to approximately HK\$89.1 million in YTD Third Quarter 2019. This increase was mainly the result of

- (i) an increase in staff costs (other than sales teams) of approximately HK\$4.6 million including share-based payments of HK\$2.3 million relating to share options granted to employees, some salary increments due to general salary increases and promotions of employees in early 2019;
- (ii) an increase in exchange loss of HK\$1.1 million mainly attributable to the depreciation of Renminbi in 2019.

Listing expenses

There were listing expenses of HK\$11.6 million in YTD Third Quarter 2018 as the Company was then in the process of Listing application. Such expenses were non-recurring as the Company had been listed in July 2018. The Company did not record any listing expenses in YTD Third Quarter 2019.

Finance costs

The Group incurred bank interest expenses on short term import loan financing of approximately HK\$189,000 in YTD Third Quarter 2019 (YTD Third Quarter 2018: HK\$66,000).

Following the application of Hong Kong Financial Reporting Standard 16 “Leases” (effective on 1 January 2019), approximately HK\$1.6 million was recognised in YTD Third 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 YTD Third Quarter 2019 amounted to approximately HK\$13.4 million (YTD Third Quarter 2018: a loss of approximately HK\$24.0 million which also included the listing expenses).

The increase in loss before listing expenses in YTD Third Quarter 2019 was mainly attributable to the net effects of (i) the decline in rental revenues; and (ii) the increase of selling and distribution costs and administrative and other operating expenses as mentioned above, which exceeded the growth in gross profit arising from the increased corporate sales and project revenues 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 (18 July 2018).

	Net proceeds to be applied <i>HK\$'000</i>	Approximate percentage of the proceeds %	Amount utilised up to 30 September 2019 <i>HK\$'000</i>	Unutilised amount up to 30 September 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%	1,656	2,237
Recruitment of additional staff	5,545	11.4%	2,698	2,847
Recruitment for our planned new retail stores	1,556	3.2%	-	1,556
Increasing our inventory	5,056	10.4%	2,328	2,728
General working capital	4,043	8.4%	4,043	-
	<u>48,475</u>	<u>100.0%</u>	<u>10,725</u>	<u>37,750</u>

After several months of searching for a suitable location, we have decided to open our second store in Shanghai in Jing An District, expenses of which will be covered in the fourth quarter by part of the proceeds from the Listing in accordance with the section headed “Future Plans and Use of Proceeds” in the Prospectus. We look forward to commence the operation of such second store before the end of the year.

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 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 "Share Option Scheme" section below).
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 30 September 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 "Share Option Scheme" section 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 "Share Option Scheme" section below.

(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%

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. 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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%

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Name	Capacity/Nature of Interest	Number of Shares held <i>(note 6)</i>	Percentage of shareholding <i>(note 2)</i>
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	65,075,000 (L)	6.51%
Mr. KWAN Hoi Wang	Interests in controlled corporations <i>(note 5)</i>	87,775,000 (L)	8.78%

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 30 September 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 “Share Option Scheme” section 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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.

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 2019 (nine months ended 30 September 2018: Nil).

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 30 September 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 nine months ended 30 September 2019 are as follows:

	Exercise price HK\$	Number of share options at 1 January 2019	Number of share options lapsed during the period	Number of share options at 30 September 2019
Options granted to Ms. MOK Lai Yin Fiona, a Director of the Company, with exercise period:				
- 18 July 2019 to 17 July 2022	0.22	3,293,400	-	3,293,400
- 18 July 2020 to 17 July 2022	0.22	3,293,400	-	3,293,400
- 18 July 2021 to 17 July 2022	0.22	3,393,200	-	3,393,200
Options granted to employees and consultants, with exercise period:				
- 18 July 2019 to 17 July 2022	0.22	11,556,600	(165,000)	11,391,600
- 18 July 2020 to 17 July 2022	0.22	11,556,600	(165,000)	11,391,600
- 18 July 2021 to 17 July 2022	0.22	11,906,800	(170,000)	11,736,800
		45,000,000	(500,000)	44,500,000

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

During the nine months ended 30 September 2019, a total of 500,000 share options were lapsed, no share options were issued or cancelled. The number of share options outstanding as at 30 September 2019 was 44,500,000, including as at stated above, of which 29,815,000 share options have exercise period commencing after 30 September 2019.

(c) Fair value of share options and assumptions

The fair value of services rendered 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 nine months ended 30 September 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 nine months ended 30 September 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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.

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. Lale KESEBI 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 AND OTHER INFORMATION (CONTINUED)

CORPORATE GOVERNANCE

Pursuant to Rules 17.22 and 17.24 of the GEM Listing Rules, the Company does not have advances to any entity nor provided any financial assistance and guarantees to affiliated companies. In addition, pursuant to Rule 17.23 of the GEM Listing Rules, the controlling shareholders of the Company have not pledged 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 to 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, 11 November 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. Elaine June CHEUNG, Ms. Lale KESEBI and Mr. Roderick Donald NICHOL as independent non-executive Directors.